MURPHY
OIL CORPORATION

1974 ANNUAL REPORT

Loading Superior refinery bunker fuel aboard an ore carrier at Duluth—Superior

MURPHY
OIL CORPORATION
and Consolidated Subsidiaries

1974 ANNUAL REPORT

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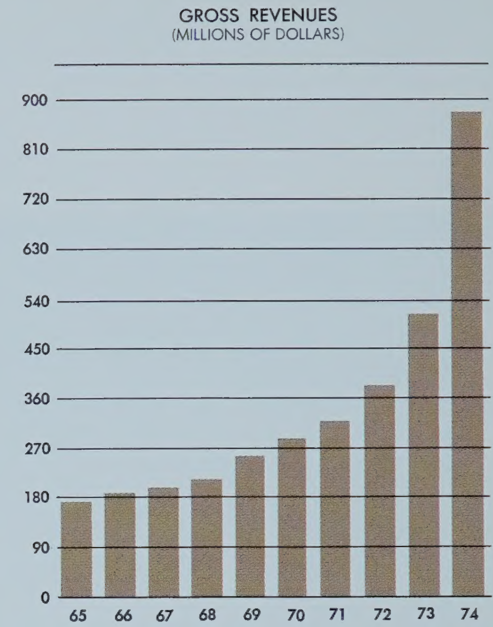
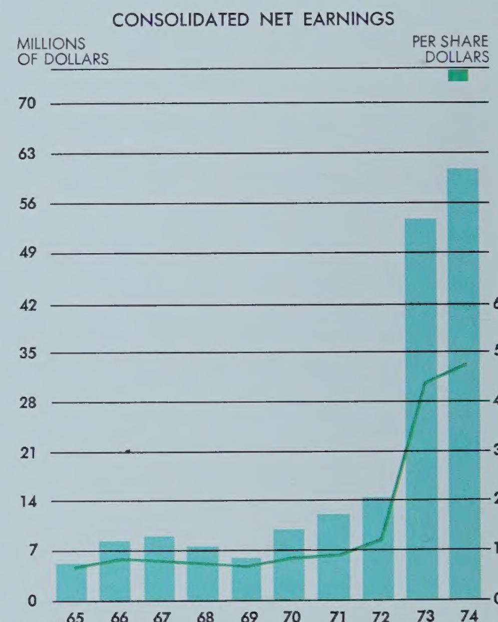
1974 Highlights

	1974	1973
FINANCIAL		
Revenues	$ 878,992,000	511,007,000
Net earnings	60,944,000	53,538,000
Per Common share assuming full dilution	4.84	4.29
Dividends paid:		
Preferred Stock	114,000	145,000
Common Stock	7,484,000	3,660,000
Common Stock dividends per share	.60	.315
Capital expenditures	280,169,000	117,985,000
Working capital provided by operations	150,466,000	115,957,000
Depreciation and depletion	38,600,000	31,533,000
Working capital	93,858,000	98,989,000
Long-term debt	284,901,000	186,519,000
Total assets	1,041,599,000	703,859,000
Stockholders' equity	311,923,000	240,196,000
STOCKHOLDERS AND EMPLOYEES		
Common stockholders—end of year	4,809	4,548
Common and Common equivalent shares—average outstanding	12,423,392	11,626,350
Employees—end of year	3,838	2,989
Salaries, wages and benefits	$ 44,598,000	36,924,000





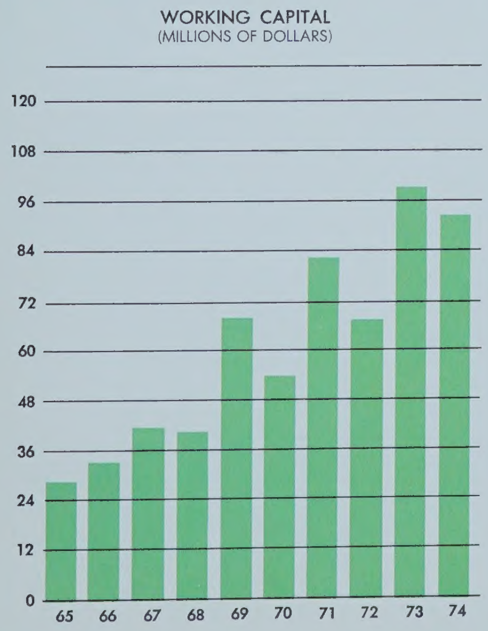
The Chairman's Letter to the Stockholders

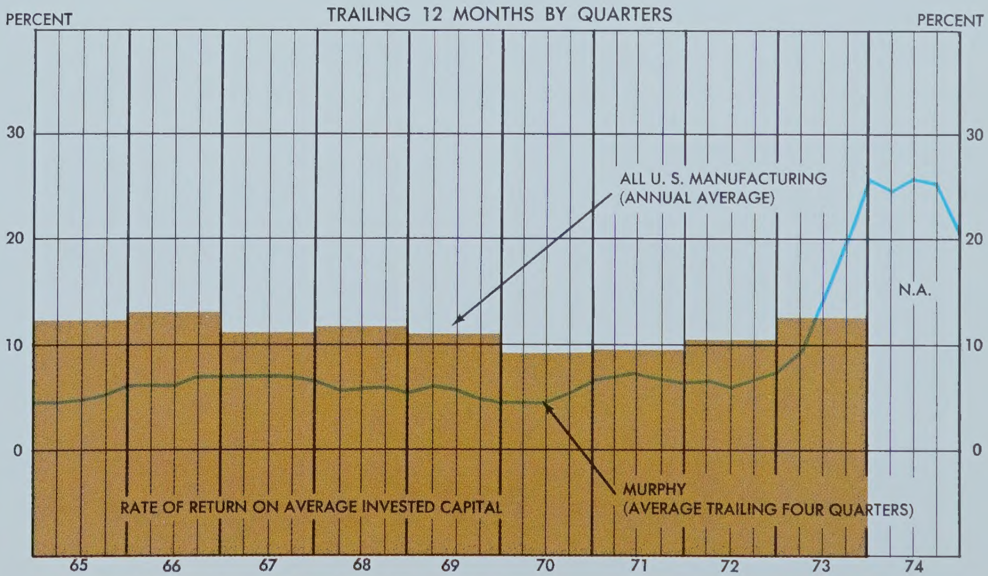
Murphy Oil Corporation's 1974 earnings rose to a record $60.9 million, equal to $4.84 a share. This is compared to net earnings of $53.5 million, $4.29 a share in 1973, itself more than triple results of 1972.

The years 1973 and 1974 span an extraordinary period in the petroleum industry. Throughout this time we have used such terms as "unsustainable pace" and "insupportable level" in referring to this company's seemingly sensational increases in earnings, and we have tried to pinpoint diminution of the forces which caused them. The Return on Investment chart, below, suggests this occurred around August, 1974 with curtailment of demand by quadrupled world prices and onset of the 1974-1975 recession. Accordingly, profit margins contracted severely and apparently will have shortly returned to normal.

Last year we reported that during 1973 total capital employed by the Murphy enterprise was about equally divided between the United States and other countries, but that almost three-fourths of Murphy's 1973 income was earned abroad. During 1974, of the total capital employed, about 55 percent was in the United States and 45 percent abroad; yet only 18 percent of our income was earned at home. Return on borrowed and invested capital was about 7 percent in the U. S. in 1974, compared with 8 percent in 1973. Worldwide returns were 17 percent in 1974 and 16 percent in 1973.

Capital expenditures of $280 million were adjusted during the year in response to the rapidly changing environment. Further expansion of capacity and addition of equipment to permit the charging of all sour crude at the Meraux refinery, originally a $60 million project which threatened to inflate to $140 million, was deferred. The offshore drilling fleet, already growing apace, took a quantum leap when ODECO acquired Storm Drilling for $109 million cash. The outlay for exploration and development, including costs charged directly against profit, was increased to $107 million from $65 million in 1973.



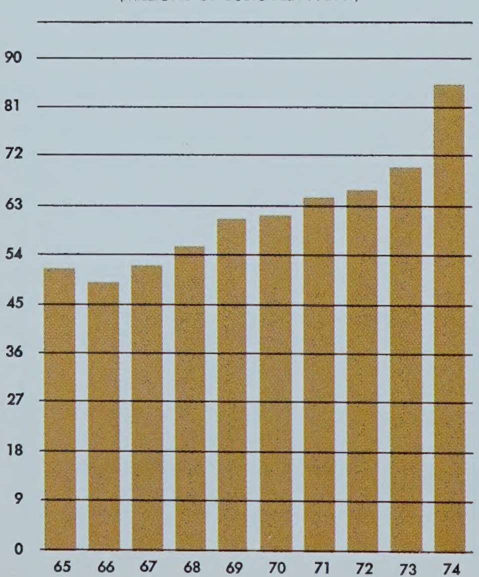


U. S. MANUFACTURING ANNUAL AVERAGE RETURN ON INVESTMENT FROM STATISTICAL ABSTRACT OF THE UNITED STATES PUBLISHED BY BUREAU OF CENSUS, U. S. DEPARTMENT OF COMMERCE

The exploration program is enlarging our resource base. Significant additions to oil in place were made in Canada's heavy oil belt. Appraisal drilling confirmed that the Ninian Field in the British North Sea is in the giant class. Offshore Louisiana and Texas, discoveries were made in West Cameron Blocks 104 and 537, which were 1974 lease purchases, and development drilling commenced in the South Marsh Island 250, East Cameron 351, and High Island 327 and 332 Fields discovered earlier. A second discovery was made in West African waters. The Jay-Fanny Church Field on the Alabama-Florida line was extended onto our holdings, and a discovery was made in Bowie County, Texas, at the other end of the Smackover trend.

Mounting costs, prospect of a special tax, and government participation are causing some to question whether the North Sea can be developed, particularly the smaller finds. Frankly, we as a company and Britain as a nation simply must have the oil. Nothing so far in our talks with Her Majesty's Government nor its announcements indicates that we should not go forward. This we are

NET NATURAL GAS PRODUCTION
(MILLIONS OF CUBIC FEET A DAY)



doing, relying on internally generated funds and ample debt capacity in the United States for our part of the capital, approximately $300 million over 1975, 1976 and 1977.

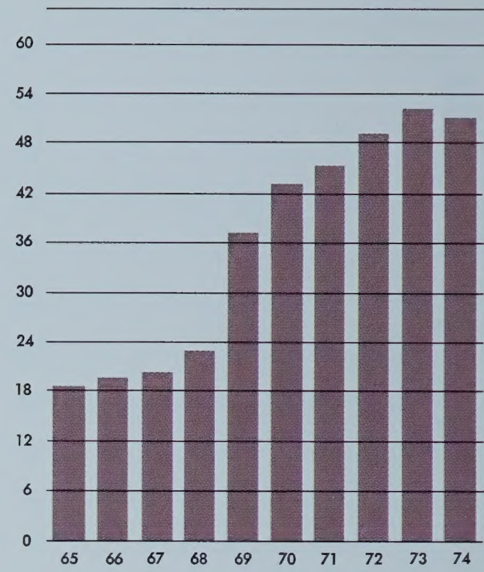
In addition to emphasizing that the pace of earnings growth in 1973 and 1974 was unsustainable, we have pointed out that those high profits are somewhat illusory because they simply are unavailable for distribution to shareholders. Their substance is in a strengthened parent company balance sheet. Over the two years long-term debt of the parent and wholly-owned subsidiaries was reduced from $104 million to $67 million, whilst shareholders' equity rose from $188 million to $312 million. This improved the ratio of debt to equity to a rock strong .21:1 in the parent company account, which is the key, while holding total consolidated debt to equity and minority interest to a respectable .69:1 even after ODECO's heavy borrowing to finance expansion of its drilling fleet.

We referred earlier to exhaustion of temporary forces which increased earnings. Others, such as cost reduction measures and benefit of large capital expenditures for refinery expansion, additions to our contract drilling fleet, and exploration, are not temporary—or at least are not intended to be. Given reasonable government policies and public attitudes toward tax rates and controls of various kinds, and a normal business cycle, these should ensure progression of earnings somewhat along the trend discernible in the charts from 1965 to early 1973.

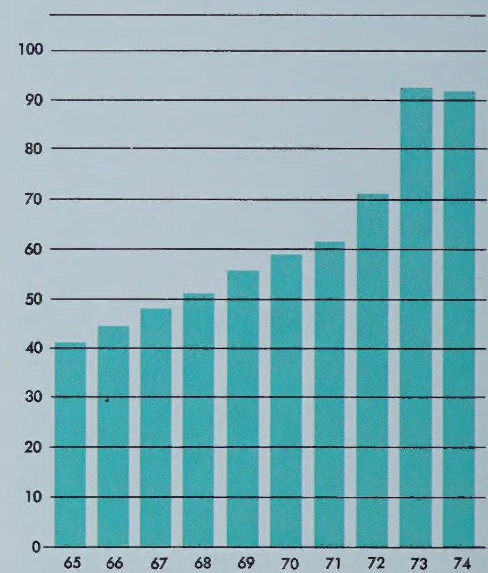
C H Murphy Jr

March 21, 1975

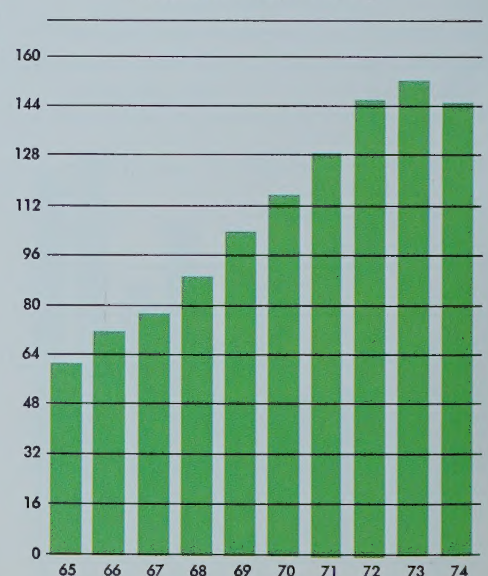
NET CRUDE OIL & GAS LIQUIDS PRODUCTION
(THOUSANDS OF BARRELS A DAY)



REFINERY CRUDE RUNS
(THOUSANDS OF BARRELS A DAY)



REFINED PRODUCT SALES
(THOUSANDS OF BARRELS A DAY)



OPERATING REVIEW

Murphy Oil Corporation United States and South America

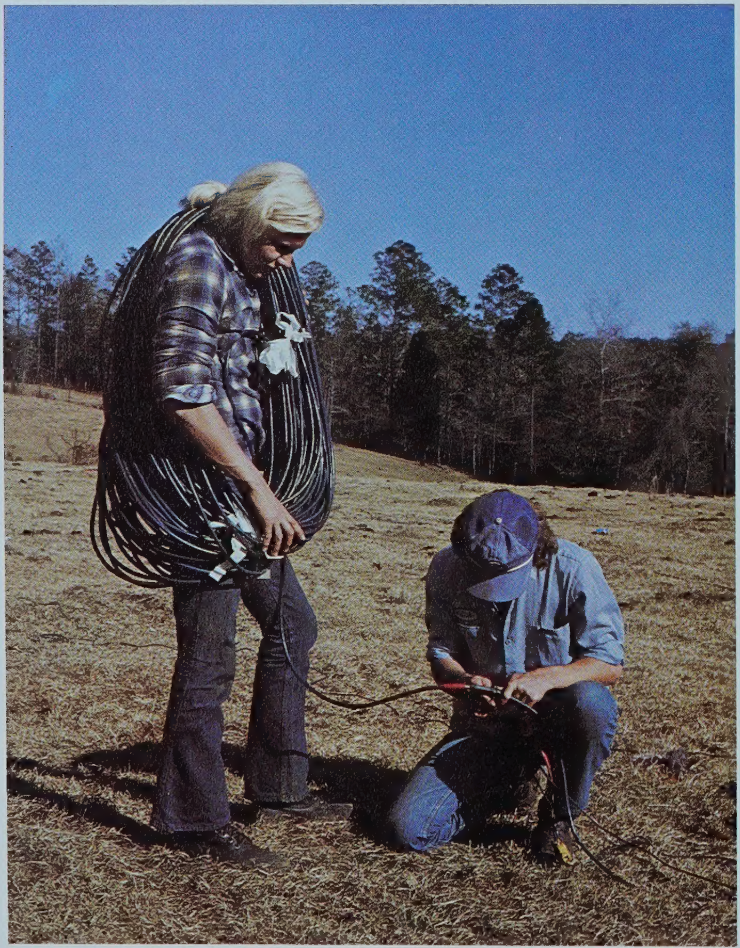
	1974	1973
Revenues	$432,923,000	244,155,000
Capital employed	137,185,000	128,986,000
Contribution to net earnings	11,288,000	21,259,000
Daily volumes—barrels:		
Product sales	91,399	96,884
Refinery runs	91,962	93,561
Crude oil produced	11,232	11,857
Natural gas produced (MCF)	38,462	34,243
Employees	617	623

In addition to activities associated with its role as a "parent company," Murphy Oil Corporation conducts exploration and production operations in the United States and South America and refines crude oil and markets petroleum products in the United States.

The Arab embargo ended in March of 1974, but mandatory product allocation and price controls, the outgrowth of crude and product shortages, continued throughout the year. "Cost pass through," "allocation fraction," "base period volume," "two tier pricing," "crude oil entitlements," and "small refiner bias" became conventional expressions emanating from increased government intervention which at the least severely diluted the historical free market oil industry in the United States.

EXPLORATION AND PRODUCTION

Murphy, Ocean Drilling & Exploration Company (ODECO) and Ocean Oil & Gas Company (Ocean Oil)



Laying out cables and geophones for seismic survey in southwestern Alabama

Exploratory drilling in southern Louisiana

joined with others in acquiring 39 blocks on the Outer Continental Shelf, offshore Louisiana and Texas in 1974. These blocks aggregate 195,000 gross acres at a cost of $367 million. Murphy, ODECO and Ocean Oil, including the minority interests, paid $56 million for 45,000 net acres. At this writing eight tests had been drilled on seven of these blocks. Two in Block 104 West Cameron, Louisiana were completed as gas wells and five were dry. A well in Block 537 West Cameron logged substantial thicknesses of apparent pay sand and is considered a discovery though untested through pipe. Two tests were in progress at year-end and an active testing program on other blocks in the Gulf of Mexico is continuing.

Other Gulf of Mexico exploration drilling resulted in the discovery of two new gas fields in High Island, offshore Texas on Blocks A-327 and A-332.

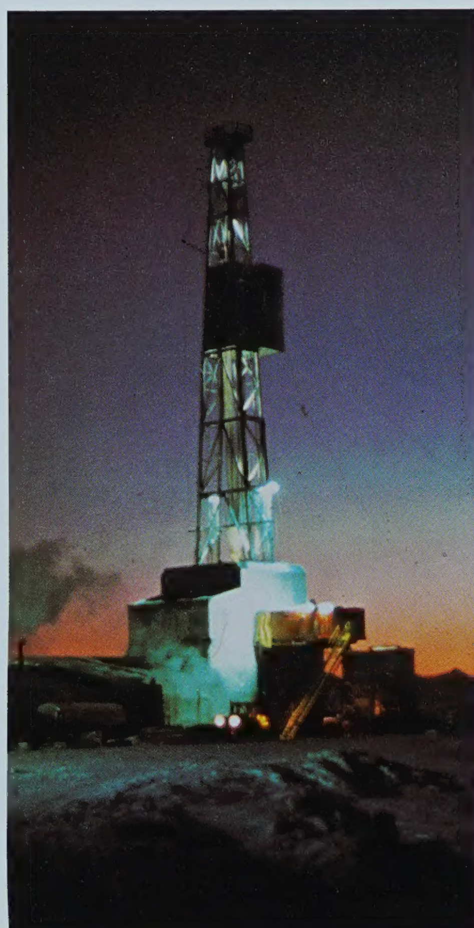
Geological and geophysical projects moved forward in preparation for anticipated offshore lease sales in the Gulf of Mexico, Gulf of Alaska and the Atlantic Coast Continental Shelf areas.

Six inland United States exploratory tests were completed. One resulted in the discovery of a small Cotton Valley (Jurassic) oil field in northwest Louisiana and a second, testing at year-end, was an apparent Smackover oil field discovery in northeast Texas. Four exploratory wells—Jurassic tests in southern Alabama and northeast Louisiana, a Tuscaloosa test in south central Louisiana and a Smackover test in northeast Texas—were dry.

At year-end an important exploration well on the Casa Anticline in the hard rock country of central Arkansas was still drilling but was abandoned early in 1975 short of target depth due to mechanical problems without any encouraging shows. This 100-percent-interest well had been spudded late in 1973.

On the Alaska North Slope, at year-end drilling equipment was moving in and "rigging up" had begun for the drilling of an Upper Cretaceous test. Murphy was to earn a 45-percent working interest in a 30,000-acre lease by paying for 60 percent of the well cost. The well was abandoned as a dry hole in March 1975.

Inland U. S. development drilling produced three oil wells in the Delhi Unit, northeast Louisiana; two oil wells in the Jurassic trend of southern Alabama; one Tensleep oil well in the Bighorn Basin of Wyoming; and one Cretaceous oil well in western Nebraska. One successful development gas well was drilled in the Delhi Unit and one in the south Alabama Jurassic trend. Three gas wells added to the already established new gas and condensate reserves in the South Sarepta deeper pool Gray sand of northwest Louisiana.



Development drilling in the Bighorn Basin of Wyoming

Two development wells drilled offshore Louisiana resulted in a gas well on Block 250, South Marsh Island. The other on Block 19, South Pelto was dry.

In Venezuela Murphy participated in 11 small interest development wells. All were successfully completed oil wells drilled to sustain rather than enhance production levels.

Secondary recovery programs in central Mississippi, south Arkansas, west Texas and north central Montana continued to receive particular attention. Work which began in 1973 on the facilities required for a pilot tertiary recovery program employing carbon dioxide injection in a west Texas field was completed and early returns are promising.

Production of crude oil and gas liquids inland U. S., in the Gulf of Mexico and in Venezuela averaged 11,200 barrels a day, down about 600 barrels a day from 1973. Natural gas production averaged 38.5 million cubic feet a day, up from 34.2 million cubic feet. Increased offshore production more than offset inland declines.

REFINING

Governmental actions in Canada and the United States affected the year's crude oil input rates at the Meraux, Louisiana and Superior, Wisconsin refineries. In the U. S. the Federal Energy Administration's

mid-year crude oil allocation program increased Murphy's available crude oil by some 30,000 barrels a day. This crude oil was purchased from other oil companies at their average crude cost. This increment and about 15,000 barrels a day processed for another company filled the Meraux refinery during the last half of the year at about 92,500 barrels a day.

For the first eight months of the year, the Superior refinery crude oil throughput was the 30,000 barrels a day allocated to it by the Canadian Government. In September the Canadian crude oil export tax of $5.20 a barrel and resulting high cost products forced a reduction in crude runs to the operating minimum of 20,000 barrels a day.

In September the completion of a revamp of the Superior crude oil distillation section increased its capacity from 37,000 to 45,000 barrels a day. Of equal importance, perhaps, this project included heat conservation measures which significantly reduced refinery fuel consumption.

The $60 million expansion and modernization project for the Meraux refinery announced early in 1974 was indefinitely postponed in September due to rapidly escalating labor and material costs and uncertain crude oil sources and prices.

For the year, Murphy processed 106,800 barrels a day of crude oil in its two United States refineries. Of this amount, 92,000 barrels a day was for Murphy's own account and 14,800 barrels a day was for another company.

MARKETING

A lean and responsive marketing organization and generally healthy product prices failed to achieve the 1973 gross margins on refined product sales due to a change in inventory pricing coupled with the required one-month delay in "cost pass through" under Federal Energy Administration regulations. Volumes of products sold fluctuated in response to frequent changes in government regulations in the U. S. and Canada and, as a result of Canadian Energy Board restrictions on crude oil exports and the Canadian export tax (see Refining above), volumes of all products averaged 91,400 barrels a day, a reduction of 5,500 from 1973. Product prices, high at the beginning of the year, had decreased markedly by year-end.

Early in the year, in order to meet Environmental Protection Agency requirements and Federal Energy Administration regulations with regard to unleaded gasoline, Murphy's entire product distribution system was purged to ensure uncontaminated products at all outlets. The original program contemplated the substitution of unleaded regular gasoline for leaded regular. Thus far, however, the public's demand for leaded regular has prohibited its elimination and both products are still available at most Company terminals and service stations.

Disposition of marginal and submarginal service station properties continued. New station construction was curtailed. Stations built or otherwise acquired will replace stations dropped through normal attrition. Remodeling and rebuilding was continued at locations designated for Spur Go Shops (convenience stores with gasoline).

Strong product demand and firm product prices have resulted in a dramatic decrease in service station dealer turnover.

Fast food stores with self-service gasoline pumps are a recent marketing innovation. This is a new Spur Go Shop in the New Orleans area.

Lindberg steam injection plant in the Cold Lake area of central Alberta. This is a major facility in experimental tertiary recovery.

Well site, Victoria Island

Murphy Oil Company Ltd.

	1974	1973
Revenues	$95,305,000	64,187,000
Capital employed	67,2[illegible],000	72,297,000
Contribution to net earnings (including minority interest)	5,784,000	8,396,000
Daily volumes—barrels:		
Product sales	20,219	20,589
Crude oil processed	[illegible]	18,112
Crude oil produced	[illegible]	7,879
Natural gas produced (MCF)	[illegible]	13,784
Employees	262	277

Murphy Oil Company Ltd., 77 percent owned, is headquartered in Calgary, Alberta, Canada. It conducts production and exploration operations mainly in the western provinces and Arctic islands and markets petroleum products in Ontario and Quebec.

The year 1974 was one of the most unpredictable and hectic in the history of the petroleum industry in Canada. A dispute between Federal and Provincial Governments over the control and taxation of mineral resources continued all year and was unresolved at year-end. Fear of energy shortages in the eastern provinces early in the year changed to concern over excessive product inventories in the last half and gasoline price cutting became widespread. As a consequence of these events, a change in accounting for income taxes which was not applied retroactively in the consolidated financial statements and the debilitating effect of double digit inflation, Murphy Oil Company Ltd. earnings decreased.

EXPLORATION AND PRODUCTION

Exploration and development programs were continued in the western sedimentary basin, the heavy oil areas of Alberta and Saskatchewan and in the far out frontier areas of the Arctic and East Coast offshore.

In the frontier areas, the first well in the Sydney Basin near Cape Breton Island, offshore Nova Scotia, in which Murphy has a 25-percent interest, was dry and abandoned. Further seismic work is planned for this area to follow up on encouraging leads encountered in the well. Drilling equipment, materials and supplies have been barged and airlifted to a location on the Prince Albert Peninsula of Victoria Island for the drilling of a rank wildcat. This well, required under a farmout agreement, will earn Murphy a 50-percent interest in a spread of more than 5 million acres in the Arctic. After lengthy weather delays, this well was spudded in January 1975.

Exploration and development drilling in the Western Canada sedimentary basin resulted in one oil well and one gas well in the potentially prolific Senlac sand trend in the heavy oil area of west central Saskatchewan. Additional acreage was acquired to supplement Murphy's already substantial holdings in this area. Due to unrealistic provincial royalty and taxing programs, exploration drilling activity in Saskatchewan was severely curtailed.

Development of the Grand Forks oil pool in south central Alberta continued in 1974. Fifteen oil wells were

Murphy Oil Company Ltd.

Materials and equipment were barged or airlifted to the well site on Prince Albert Peninsula, Victoria Island.

drilled during the year and 1975 calls for further exploratory drilling. In the gas-prone area of east central Alberta, Murphy drilled two successful tests in the Boyle and Figure Lake areas and made what appears to be a significant gas strike in the Barrhead area of central Alberta.

New gas volumes will be delivered from wells drilled in the Princess, Cessford, Ferrybank and Clive areas of southern Alberta and the Maidstone area of southern Saskatchewan. These wells, drilled because of increased sales contract prices, are not large individual producers but in the aggregate contribute meaningful volumes. Aggressive drilling will continue in these areas.

In the heavy oil area of Alberta, evaluation drilling resulted in 15 oil wells and one gas well. Drilling conducted in the Three Hills and Cessford areas resulted in five oil wells and one gas well.

One gas well was completed in the Osborne area of British Columbia. Seismic programs to evaluate holdings in this province are scheduled for 1975.

Experimental heavy oil tertiary recovery projects at Silverdale, Saskatchewan and Cold Lake, Alberta were encouraging and will be expanded. These thermal recovery experiments should result in a large scale viable program to recover a significantly greater portion of the vast reserves of heavy oil in place.

Conditional approval of a mining and upgrading project in the Athabasca area for the Athabasca Oil Project group, in which the Company has a 10.5-percent interest, was obtained early in 1975. The group will now have to assess the project in all its current economic and commercial aspects. A cost estimate in 1975 dollars is expected in March.

Net crude oil and gas liquids production averaged 8,000 barrels a day, up from 7,900 barrels a day in 1973. The increase in production, despite higher royalties, comes from a full year's operation of the Bracell properties acquired in mid-1973. At year-end crude oil and natural gas liquids production was averaging 8,100 barrels a day, compared with 9,500 barrels a day at the end of 1973. Virtually all of this decrease resulted from higher royalties, export restrictions and loss of demand due to the Canadian export tax.

Production of natural gas averaged 14.6 million cubic feet a day, an increase of .8 million a day over 1973 due to the Bracell acquisition overriding the decrease caused by higher royalties.

MARKETING

The year began with rapidly rising prices for refined products resulting from the 30-percent embargo cutback in crude oil supplies. In June of 1974 the embargo was lifted but by then the entire industry's marketing activities were being regulated by the Federal and Provincial Governments including price guidelines and subsidy programs for the importation of crude oil and refined products.

A typical "Gas Bar" pump island in Quebec

Unprecedented high product prices and earnings flow-through (mainly in inventories), experienced early in the year, by year-end had changed to a low-priced market glutted with product. Reduced demand—the result of high prices, abnormally warm weather and a deepening recession—caused the widespread price reductions.

Murphy partly offset the adverse supply and product price problems by marketing products made from lower cost Western Canadian crude oil moved eastward by way of Vancouver and the Panama Canal and by close control of operating costs. As a result, the marketing segment of the Company again made a significant contribution to net earnings.

In addition, Murphy's marketing representation was materially strengthened by the addition of new independent dealers, jobbers and consumer accounts, which overcame losses due to attrition and competition. Marginal service stations were closed and sold and were replaced by outlets of greater potential. At year-end all remaining Company-operated service stations had been converted to lessee-dealer management. Some conversion to self-service stations had commenced on an experimental basis and 48 Company-controlled stations and 19 independent dealers were able to market unleaded gasoline at the end of the year.

Average service station volume for the year was 25 percent ahead of 1973. Sales of all refined products averaged 20,200 barrels a day, compared with 20,600 barrels a day in 1973.

Murphy Eastern Oil Company

	1974	1973
Revenues	$228,335,000	115,584,000
Capital employed	93,33[illegible]	72,735,000
Contribution to net earnings	[illegible]	31,121,000
Daily volumes—barrels:		
Product sales	[illegible]	36,800
Crude oil processed	[illegible]	37,313
Crude oil produced	[illegible]	24,829
Employees	[illegible]	169

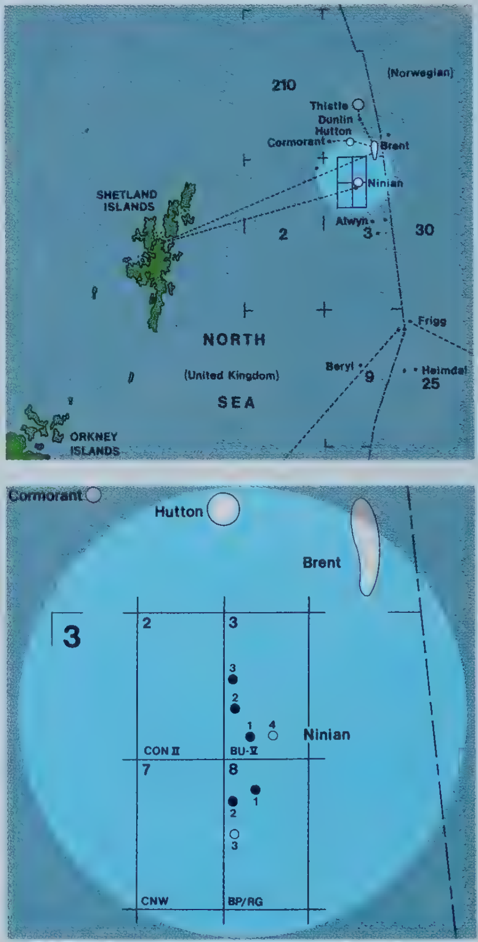
Murphy Eastern Oil Company, 100 percent owned, headquartered in London, England, carries on an integrated petroleum business in Europe, Africa and the Middle East.

Murphy Eastern Oil Company completed another year of spectacular earnings. In the first part of the year, high earnings rates resulted from a strong demand for products and high product prices. Later in the year as inventories rose and demand softened, margins narrowed substantially as prices dropped sharply.

EXPLORATION AND PRODUCTION

The extension of the newly discovered Ninian Field in the United Kingdom area in the North Sea into Block 3/3 was verified during 1974 by the successful completion of the 3/3-1 stepout well. Two subsequent appraisal wells indicate that the greater portion of this giant oil field,

ODECO's 50%-owned Ocean Kokuei drilling in the Ninian Field (Block 3/3) in the North Sea. This semisubmersible self-propelled unit is drilling its fourth well on this block.



Ninian Field, North Sea

as that term is understood in exploration circles*, lies in Block 3/3. All three wells were drilled by ODECO's 50-percent-owned semisubmersible barge, Ocean Kokuei, and it is scheduled to drill a third appraisal well early in 1975. Murphy and ODECO each holds a 10-percent interest in Block 3/3.

The Ninian Field will be developed as a unit with Block 3/8. Contracts have been let for two platforms and deliveries of 36-inch pipe for the pipeline to Sullum Voe, Shetland Islands will start early in 1975.

Four new development wells were completed in the Sassan Field in the Persian Gulf and three producing wells were worked over. Net production from the field averaged 24,000 barrels a day, an increase of 1,000 barrels a day over 1973. Planning the Bahram Field ("W" structure) development continued and seismic work was done in the "H" area of Block III.

Net crude oil production continued its expected decline in Libya and averaged 1,300 barrels a day for the year, 500 barrels a day less than 1973. As the year ended, preparations were under way for drilling an exploratory well in Block 104 A. Murphy has a one-sixth interest in the Libyan concessions.

In Gabon, the 1972 well, which earned Murphy a 20-percent interest and ODECO and Ocean Oil 10 percent each in the Doree Permit, was put on production in September. Net crude oil production at year-end was averaging about 300 barrels a day. Seismic work continued during the year in an attempt to delineate additional prospects.

****Outside North America, a field containing at least one billion barrels of recoverable crude oil***

Murco Petroleum "EP" branded station near London

Elsewhere in the Eastern Hemisphere, seismic work was carried out on the Bir Tourkia Permit in Tunisia and in the Gulf of Tunis. A seismic survey completed in Mali, West Africa, in which Murphy has a substantial interest, was being interpreted and initial results show promise. The feasibility of developing the gas discovered in 1969 in the Norwegian area of the North Sea has been kept alive but the political environment is not encouraging. Seismic data has been obtained for several areas offshore Great Britain and a concession application has been submitted in Pakistan. No progress was made on the New Zealand farmout during the year.

REFINING AND MARKETING

Western Europe and Mediterranean cargo market prices declined dramatically as demand pressures eased and the shortages of late 1973 and early 1974 gave way to surpluses in crude oil availability, ocean transportation and refining capacity. Refining margins were adversely affected by the Italian Government's imposition of temporary export controls on the traditionally "export oriented" third party refinery on Sardinia in which Murphy processes crude oil. In the last quarter, refinery runs were minimized and the crude oil sold since returns were better than yields that could be realized from refined product sales.

Murphy's European product sales for the year averaged 33,400 barrels a day, compared with 36,800 in 1973. Crude processed at Sardinia averaged 34,000 barrels a day, compared with 37,300 barrels a day.

Plans for a refinery in the Thames estuary on Canvey Island received a setback in September when Her Majesty's Government ordered a Public Enquiry to study the desirability of revoking the construction permit. A hearing is scheduled for early 1975.

In the United Kingdom, gasoline sales slowed under the impact of government controls and a rise in pump prices equivalent to about 60 cents a U. S. gallon. Some improvement was made in gross margins over 1973 but most of the price increase flowed through to the government in the form of a value added tax. A program of station modernization and maintenance continued throughout the year. New outlets for the most part displaced those dropped or lost to competition.

Service station sales were 4,900 barrels a day versus 5,300 barrels a day in the prior year.

The Ocean Scout leaving Chesapeake Bay enroute to the Gulf of Mexico was completed and joined ODECO's fleet early in 1974.

Ocean Drilling & Exploration Company

	1974	1973
Revenues—Contract drilling and related	$100,886,000	68,791,000
Oil and gas and other	28,786,000	20,006,000
Capital employed	380,243,000	228,002,000
Contribution to net earnings (including minority interest)	27,866,000	18,762,000
Total barge days:		
Available	9,355	7,607
Drilled	8,663	6,927
Daily volumes:		
Crude oil—barrels	6,755	7,520
Natural gas—MCF	32,671	22,911
Employees	2,288	1,476

Ocean Drilling & Exploration Company (ODECO), 51 percent owned, is headquartered in New Orleans, Louisiana. It conducts exploration and production operations and owns and operates the world's largest fleet of offshore drilling barges.

Ocean Drilling & Exploration Company (ODECO) again had another year of extraordinary growth and record earnings in 1974. Its drilling and diving business enjoyed unprecedented prosperity during difficult economic and political times. Demand for its specialized services was never better and the acquisition of another major offshore drilling company late in the year made ODECO the world's largest offshore drilling contractor.

CONTRACT DRILLING

Contract drilling revenues increased about 41 percent during 1974 largely because five rigs contributed income for their first full calendar year. One new semisubmersible was completed and joined the fleet in the second quarter. In a strong demand environment, ODECO had full rig utilization as well as higher contract drilling day rates.

To ensure the maintenance of its share of an expanding market, in December 1974 ODECO successfully tendered for the Common Stock of Storm Drilling & Marine, Inc. (Storm), a contract drilling and marine service firm. Storm operated 11 offshore drilling rigs and had three more under construction, and 32 service vessels and four under construction. By purchasing Storm, ODECO obtained units at work while demand was still high and units under construction at costs that could not be equalled now and which promise to come into service before demand falls off. At year-end 99 percent of the Storm Common Stock had been acquired by ODECO.

In addition to the units gained in the Storm acquisition, ODECO's 50-percent joint ventures had four deep water drilling units under construction at year-end. Three of these units are semisubmersibles designed to operate in deep, rough water areas anywhere in the world at water depths ranging from 1,000 to 1,500 feet. The fourth unit under construction is a dynamic positioned drillship (the first for ODECO) designed to operate at water depths up to 3,000 feet.

With the Storm acquisition and joint venture units, ODECO now offers a broad spectrum of drilling units widely dispersed. Summing up, the fleet now consists of 36 units in all. Completion of construction will add two semisubmersibles, two jack-ups and one drillship in 1975 and one semisubmersible and a drillship in 1976.

At year-end eight submersibles, six jackups, five semisubmersibles and one drillship were in the Gulf of Mexico; two jackups and six semisubmersibles were in the North Sea; three jackups and one drillship were off the west coast of Africa; a semisubmersible and a drillship were working offshore Brazil; one semisubmersible was off Australia; and another near South Vietnam.

Sub Sea International (Sub Sea), ODECO's subsidiary diving company, enjoyed excellent demand for its specialized underwater services and contributed to consolidated earnings for the first time. Sub Sea is an important research and development arm of the Company, facilitating the extension of all its operations into deeper waters and more severe environments.

EXPLORATION AND PRODUCTION

As reported under Murphy's U. S. exploration and production, ODECO and its 63-percent-owned subsidiary, Ocean Oil & Gas Company (Ocean Oil), together with Murphy and others, successfully bid on 39 Gulf of Mexico lease blocks at Federal sales offshore Louisiana and Texas during 1974. Eight of the 39 tracts were off Texas and 31 off Louisiana. ODECO and Ocean Oil spent about $14 million and $24 million, respectively, for combined interests ranging from as little as five percent to as much as 73 percent in 195,000 gross (31,000 net) prospective acres. At year-end only six of the 1974 acquisitions had been tested and two tests were drilling.

Ocean Drilling & Exploration Company

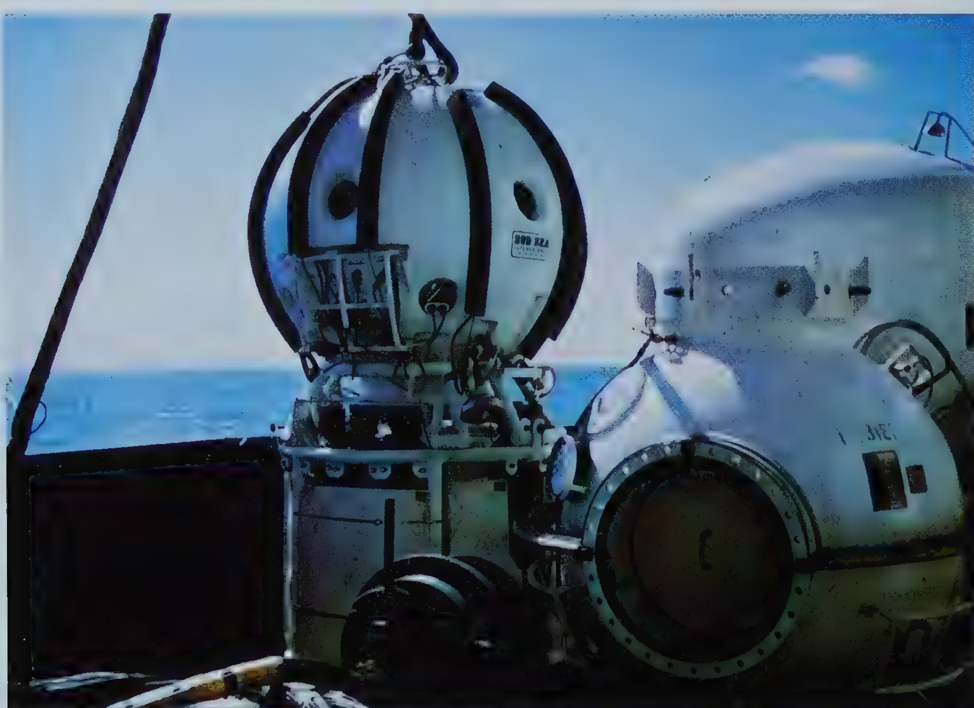
Evaluation of seismic data is progressing in anticipation of 1975 offshore sales. Two are presently scheduled for the Gulf of Mexico, one off the Middle Atlantic Coast and one in the Gulf of Alaska.

Gulf of Mexico exploration drilling, including tests on new leases, was unusually successful, at least statistically. Five or possibly six of the wells have located reserves sufficient to warrant further development. These promising wells are located on West Cameron Blocks 104 and 537, East Cameron Block 351 and South Marsh Island Block 250, all offshore Louisiana, and High Island Blocks A-327 and A-332, offshore Texas. Plans call for a continued active and accelerated exploratory drilling program in the Gulf of Mexico in 1975.

Development in the Gulf of Mexico was concentrated offshore Louisiana in the Ship Shoal, South Pelto and Vermilion areas. Successful wells were completed in the Ship Shoal area in the south halves of Blocks 224 and 246 and in Block 248. Development in these areas continues and platforms have been ordered for Block 224 north and Block 248 Three wells were drilled in the far western area of the Ship Shoal Block 113 Field. Two added to that field's reserves and indicated new prospects.

In the Vermilion Block 16 Field, two wells resulted in one single and one dual gas well. A steady program of workovers and new drilling is scheduled for next year.

Exploration outside the United States was highlighted by the extension of the Ninian Field into Block 3/3 in the United Kingdom area of the North Sea. ODECO, like Murphy, has a 10-percent interest in this block. Two stepout wells indicate that Ninian is a giant* field, most of which is in Block 3/3. The field will be developed as a unit with the owners of Block 3/8 to the south and two development platforms have been ordered and pipeline construction is under way. Production should begin in late 1977-early 1978.



Diving bell and decompression chamber-typical of modern diving apparatus owned and operated by ODECO's Sub Sea International

Also in the United Kingdom area of the North Sea, one dry hole was drilled in Block 15/28 and a delineation in the Amethyst Field in Block 47/14A was approved for drilling in early 1975. No exploration activity occurred on ODECO's Norwegian North Sea concessions.

Four successful wells in the Breme Field, Gabon, West Africa confirmed this field's potential. Plans are going forward for placing Breme on stream in 1976.

Seismic work continued in Tunisia on all three permits—in the Gulf of Tunis, the Gulf of Gabes and inland on Bir Tourkia. Farmout opportunities are being pursued in this area. No farmout drilling progress was made in New Zealand due to unfinalized negotiations between the government and permit holders regarding participation.

Domestic production declined somewhat during 1974, partly the result of reservoir depletion and partly because of damage to surface production facilities in the two most important offshore fields—Ship Shoal Block 113 and South Pelto Block 20—from Hurricane Carmen. At year-end repairs, replacements and the restoration of production was nearing completion.

In Gabon, the Doree Field in the offshore Ikando Permit, discovered in 1972, came on stream in September and is averaging about 1,200 gross barrels a day. ODECO and Ocean Oil each has a 10-percent interest and Murphy a 20-percent interest in this field.

***Ibid, page 13.**

The Ocean Endeavour, being built in Western Australia, will be launched by flooding the man-made, plastic lined crater.

Deltic Farm & Timber Co., Inc.

	1974	1973
Revenues	$12,516,000	9,399,000
Capital employed	21,886,000	17,790,000
Contribution to net earnings	1,382,000	2,871,000
Land owned—acres:		
Timber	195,000	189,000
Farm	23,000	22,000
Lumber produced—board feet	56,052,000	37,791,000
Employees	259	217

Deltic Farm & Timber Co., Inc., 100 percent owned, is engaged in farming, timber and sawmill operations in South Central United States. Its headquarters are in El Dorado, Arkansas.

After housing starts fell off abruptly in the fall of 1973, Deltic Farm & Timber Co., Inc. and the lumber industry welcomed the anticipated resumption of building activity early in 1974, promising a good year. The recovery was short-lived and was followed by a precipitous price decline still existing at year-end. Relatively normal farming returns could not avert a decline in Deltic's 1974 earnings.

Stumpage prices lagged behind the fall in product prices and served to eliminate manufacturing margins and ultimately to dry up log supplies. After two years of highly profitable Chip-N-Saw® mill operations at Ola in north central Arkansas, 1974 operations were cut back to two abbreviated shifts (about 70 percent of capacity). Start-up of Deltic's second mill at Waldo in southwest Arkansas was early in the year and it caught the brunt of falling margins during its start-up phase. Operations there were cut back to a one-shift holding pattern to "sweat out" a recovery in the lumber markets. Ola and Waldo were both in this position as the year ended.

Each mill is operationally sound and ably staffed and both have excellent production capabilities. They will be profitable assets when normal market conditions return.

Cotton yields, reduced by record rainfalls at the wrong times during the growing season and especially wet weather during the harvest, were below average per acre. About 40 percent of the cotton crop was booked early in the year at a relatively high price. The rest of the crop has not been sold because at harvest time prices were too low. Soybean yields were better than average despite equally rough weather during the harvest. Bean prices were substantially above those realized in 1973.

Deltic's continuing farm and timberland acquisition and conversion efforts brought about an increase of 1,000 acres in farmlands and 6,000 additional acres of timberland. At the end of 1974, Deltic owned 23,000 acres of farmlands in northeast Louisiana near the Mississippi River and 195,000 acres of timberland in north and south Arkansas and in north Louisiana. In addition Deltic managed 11,000 acres of farmlands and 127,000 acres of timberland for other owners.

Deltic's modern cotton harvesting equipment, essential to large-scale farm operations

Logs from Deltic's own timberlands provide part of the raw material for its two Arkansas sawmills.

FINANCIAL REVIEW

Consolidated Summary of Revenues and Net Earnings

(Thousands of dollars)

	REVENUES	EARNINGS BEFORE INCOME TAXES	INCOME TAXES	EXTRA-ORDINARY ITEMS	MINORITY INTEREST	NET EARNINGS
United States and South America—1974	$412,923	18,578	7,290	—	—	11,288
1973	244,155	21,713	454	—	—	21,259
Murphy Oil Company Ltd.	95,005	8,917	3,133	—	1,309	4,475
	64,187	8,516	120	—	1,900	6,496
Murphy Eastern Oil Company	225,315	104,088	55,418	—	—	48,670
	115,584	48,924	17,803	—	—	31,121
Ocean Drilling & Exploration Company	129,672	37,690	11,797	—	11,695	14,198
	88,797	20,654	3,629	—	7,477	9,548
Deltic Farm & Timber Co., Inc.	[illegible]	1,464	77	—	5	1,382
	9,399	3,036	163	—	2	2,871
Interest and other earnings	3,877	3,877	—	—	—	3,877
	2,614	2,614	—	—	—	2,614
Intercompany transactions	[illegible]	—	—	—	—	—
	(13,729)	—	—	—	—	—
Unallocated expense	—	(15,161)*	2,124	(5,661)†	—	(22,946)
	—	(12,488)*	12,943	5,060	—	(20,371)
Total—1974	[illegible]	159,453	79,839	(5,661)	13,009	60,944
1973	511,007	92,969	35,112	5,060	9,379	53,538

*Unallocated expense:	1974	1973
Interest	$10,359	7,647
Provision for foreign losses	2,258	2,897
General and administrative	2,138	1,614
Depreciation and amortization	406	330
	[illegible]	12,488

†Cumulative effect of change in accounting

MURPHY
OIL CORPORATION
and Consolidated Subsidiaries

Five-Year Summary

(Dollars in thousands, except per-share amounts)

CONSOLIDATED SUMMARY OF EARNINGS	1974	1973	1972	1971
Revenues	$878,992	511,007	386,909	328,584
Crude oil, products and operating expenses	588,572	312,033	266,195	224,591
Exploration expenses	28,757	26,342	17,637	13,395
Interest expense	16,521	13,997	10,764	8,821
Federal and state income taxes	12,360	15,615	1,778	3,634
Foreign income taxes	67,479	19,497	13,233	11,107
Earnings before extraordinary items and cumulative effect of accounting change	66,605	48,478	14,306	11,100
Extraordinary items (net) less related income taxes	—	5,060	(28)	—
Cumulative effect on prior years of accounting change	(5,661)	—	—	—
Net earnings	60,944	53,538	14,278	11,100
Dividends on Preferred and Preference Stock	114	142	986	1,098
Net earnings applicable to Common Stock	60,830	53,396	13,292	10,002
Per Common and Common equivalent share:				
Earnings before extraordinary items and cumulative effect of accounting change	$ 5.36	4.15	1.23	1.01
Net earnings	4.90	4.59	1.23	1.01
Per Common share assuming full dilution:				
Earnings before extraordinary items and cumulative effect of accounting change	5.29	3.89	1.17	.97
Net earnings	4.84	4.29	1.17	.97
Cash dividends per Common share	.60	.315	.30	.30
REVENUES AND CONTRIBUTION TO EARNINGS BY SEGMENTS				
Revenues				
Petroleum—North America	$509,526	305,757	247,194	220,080
Overseas	231,952	113,676	69,722	51,624
Contract drilling and related—North America	50,506	30,268	24,795	23,363
Overseas	50,380	38,523	26,852	20,718
Agriculture, timber and lumber	11,653	8,811	7,836	3,613
Other	24,975	13,972	10,510	9,186
Total	$878,992	511,007	386,909	328,584
Contribution to earnings				
Petroleum—North America	$ 12,566	22,339	(246)	1,958
Overseas	40,644	26,192	4,546	3,209
Contract drilling and related—North America	14,032	5,024	3,301	4,030
Overseas	10,749	7,816	6,173	4,597
Agriculture, timber and lumber	974	2,722	2,310	940
Federal and state income taxes	(12,360)	(15,615)	(1,778)	(3,634)
Earnings before extraordinary items and cumulative effect of accounting change	$ 66,605	48,478	14,306	11,100

Per-share amounts adjusted to reflect a two-for-one stock split effected in 1974.
Corporate overhead and interest expense are allocated in determining the contribution to earnings by segments.

1970
277,564
190,467
10,215
7,817
4,550
7,398
9,337
71
—
9,408
1,122
8,286
.90
.91
.88
.88
.30
186,294
46,574
20,073
15,771
1,943
6,909
277,564
5,196
2,735
3,709
1,810
437
(4,550)
9,337

Analysis of Consolidated Summary of Earnings

Earnings for 1974 benefited from increased domestic crude oil and natural gas prices and higher natural gas volumes, excellent refined product margins in Western Europe early in the year and a strong demand for contract drilling barges and a larger fleet.

The effect of a write down of certain producing oil and gas properties located overseas to net book value for local income tax purposes was to reduce 1974 net earnings by $5,114,000, $.41 a Common and Common equivalent share.

In order to achieve a better matching of current costs and current revenues and to conform to the predominant industry practice, the Company changed its inventory valuation method from first-in, first-out (FIFO) to last-in, first-out (LIFO) for all crude oil and petroleum product inventories except for inventories owned by foreign subsidiaries in the United Kingdom and Canada. The effect of the change was to reduce net earnings in 1974 by $14,475,000, $1.17 a Common and Common equivalent share.

In 1974 the Company's 77%-owned Canadian subsidiary adopted retroactively deferred tax accounting for certain exploration, development and lease acquisition costs in order to comply with a ruling issued by the Canadian Provincial Securities Administrators requiring compliance with Bulletin 26 issued by the Canadian Institute of Chartered Accountants. The cumulative effect of the accounting change, $5,661,000, $.46 a Common and Common equivalent share, was charged against earnings in 1974. This change in method of accounting reduced earnings before cumulative effect of accounting change in 1974 by $1,991,000, $.16 a Common and Common equivalent share.

Murphy's earnings began turning downward late in the third quarter of 1974 and earnings in 1975 are not expected to reach the unusually high levels achieved in 1974 and 1973.

The marked increase in earnings in 1973 was due to significantly higher price levels, especially in the European cargo market, increased production of crude oil and gas liquids and natural gas, higher refinery inputs and refined product sales volumes and increased earnings from contract drilling mainly as a result of additions to the barge fleet. Earnings also benefited from a foreign tax credit carryforward of $5,060,000, $.44 a Common and Common equivalent share. Pro forma net earnings for 1973 assuming retroactive application of the change in accounting for Canadian income taxes were $51,179,000, $4.39 a Common and Common equivalent share. The effect of retroactive application on years prior to 1973 is not significant.

Financial Review

Loading rack at Murphy Oil Company Ltd's modern Ottawa Terminal

Drilling "shot holes" for seismic survey work in northwest Texas

EARNINGS

Consolidated net earnings were $60,944,000, equal to $4.90 a Common and Common equivalent share, after providing $114,000 for dividends on the Preferred Stock. Included in net earnings was a special charge of $5,661,000, equal to $.46 a share, to record the cumulative effect to December 31, 1973 of an accounting change by Murphy Oil Company Ltd. required by the retroactive adoption of deferred tax accounting for prior years. Fully diluted earnings a share were $4.84. In 1973 consolidated net earnings were $53,538,000, equal to $4.59 a Common and Common equivalent share. Included in 1973 earnings was an extraordinary gain of $5,060,000, equal to $.44 a share, arising from utilization of foreign tax credit carryforward. Fully diluted earnings a share were $4.29 in 1973. In 1973 dividends on the Preferred Stock were $145,000. Outstanding Common and Common equivalent shares averaged 12,423,392 in 1974 and 11,626,350 in 1973. Earnings per share and average shares outstanding have been adjusted to reflect a stock dividend which effected a two-for-one stock split on May 8, 1974.

REVENUES

Consolidated revenues were $878,992,000, a new high by a wide margin, and a 72.0-percent increase over the $511,007,000 1973 total. Sales increased 75.9 percent from $428,244,000 to $753,131,000. Volumes of refined product sales averaged 145,000 barrels a day during the year, down 6 percent from 154,300. Volumes decreased 5.7 percent in the United States, 1.8 percent in Canada and 9.4 percent in Europe. Higher product prices overcame the effect of reduced volumes and served to increase petroleum product sales from $378,052,000 to $634,318,000, or 67.8 percent.

Agricultural, timber and lumber sales increased 32.3 percent, from $8,811,000 to $11,653,000, as a result of a full year's production, albeit at reduced capacity, from a new sawmill and good soybean yields and prices. These factors offset below average cotton yields and a dismal lumber market which existed most of the year.

Oil and gas sales to third parties increased from $41,381,000 in 1973 to $107,160,000 or 159.0 percent. All of this increase resulted from increased crude oil and gas prices, a 20.9-percent increase in natural gas production and the diversion of Persian Gulf crude oil from refining input to crude oil sales in the latter part of the year. This was a factor in the reduction in petroleum product sales volumes in Europe. Crude oil and gas liquids produced averaged 51,600 barrels a day for the year, compared with 52,100 for 1973.

Drilling and other operating revenues increased from $70,879,000 to $109,271,000, a significant 54.2 percent gain. Contract drilling

revenue was $95,277,000, compared with $67,550,000. This 41.0-percent increase resulted from increased day rates, fleet additions during the year and a full year's earnings on drilling barges added to the fleet in 1973. Diving revenue soared to $5,609,000 from $1,241,000 due to additional units in service and strong demand. Drilling barge design fees totaled $1,430,000 in 1974, compared with $169,000 in 1973. Other operating revenues, mostly refinery processing fees, were $6,955,000, compared to $1,919,000 in 1973.

Interest and other revenues increased to $16,590,000 from $11,884,000, a gain of 40.0 percent, primarily from larger amounts being available for short-term investments at higher yields and increased earnings of unconsolidated subsidiaries.

COSTS AND DEDUCTIONS

Consolidated costs and deductions were $812,387,000, compared with $462,529,000 in 1973. They were 92.4 percent of total revenues in 1974, compared to 90.5. Costs of crude oil, products and related operating expenses increased 91.5 percent from $287,537,000 to $550,700,000. Despite reduced volumes of refined product sales, these costs were higher due to costlier purchased crude and accelerated inflation of operating labor, materials and supplies. Costs of crude oil, products and related operating expenses were 73.1 percent of sales revenue in 1974 as against 67.1 percent in 1973.

Drilling barge and other operating expenses were up $13,376,000 or 54.6 percent from $24,496,000 to $37,872,000. Aside from inflation these expenses rose as the fleet grew. There were 9,400 rig days available in 1974 versus 7,600 in 1973. As a percent of contract drilling and related revenues, drilling barge and other operating expenses rose from 35.5 to 37.5 percent.

Exploration expenses, including $12,638,000 of dry hole and abandonment costs, increased $2,415,000, equal to 9.2 percent, during the year to $28,757,000. In 1973 dry hole and abandonment costs were $13,025,000 and total exploration expenses were $26,342,000. Most of the modest increase represents $1,160,000 more in amortization of nonproducing leases due to unusually large expenditures in Gulf of Mexico lease sales and a $1,562,000 increase in geophysical costs arising from increased activity in Alaska, Midwestern United States, the Gulf of Mexico, the Arctic islands and off the northeast coast of Canada. As a percent of total revenues, exploration expenses were 3.3 in 1974 and 5.2 in 1973.

Selling and general expenses were $27,233,000, compared with $23,600,000, a 15.4-percent increase. Compared to total revenues, they were 3.1 percent in 1974 and 4.6 percent in 1973. This decrease per revenue dollar was the result of continued cost consciousness in all areas of the enterprise. The increase of $3,633,000 in absolute dollars was almost entirely the result of inflation except in Ocean Drilling & Exploration Company (ODECO) where expansion of the business was a major factor.

Depreciation and depletion increased 22.4 percent from $31,533,000 to $38,600,000. Of this increase, $3,445,000 was due to a full year's operation of 1973 drilling barge additions and a partial year on 1974 additions. Most of the remainder was the result of additions to the refineries and to production facilities.

During the first quarter of 1974, the value of producing oil properties

Arctic Islands well location on Prince Albert Peninsula, Victoria Island

Financial Review

outside North America was written down to net book value, as that term is generally understood by tax authorities overseas, by a charge of $7,584,000. There was no similar charge in 1973.

Provision for foreign losses rose from $4,833,000 to $5,310,000, an increase of $477,000. All of this increase was provided for exchange losses on loans payable in a foreign currency because of the gradual deterioration of the United States dollar during the year.

Taxes other than income taxes were $6,962,000, compared with $5,700,000 in 1973. Interest expense was $16,521,000, an increase of $2,524,000 over 1973. About $1,250,000 of the increase occurred at the end of the year in connection with debt incurred in ODECO's purchase of Storm Drilling & Marine, Inc. (Storm). The rest of the increase is due to increased interest on variable rate debt. The decrease in Federal and state income taxes from $15,615,000 to $12,360,000 is due to a reduction in U. S. and foreign source taxable earnings. Foreign income taxes soared to $67,479,000, a spectacular increase of $47,982,000 or 246.1 percent over 1973's $19,497,000. Tax rates in Iran, Libya and Venezuela were raised significantly from time to time during 1974.

Excise taxes totaling $144,463,000 were collected from the Company's customers and paid to governmental agencies. This is a decrease of $2,191,000 from the prior year.

CAPITAL EXPENDITURES

In 1974 capital expenditures were $280,169,000, compared with $117,985,000 spent in 1973. Additions to property, plant and equipment of $263,937,000, an increase of $160,797,000, are detailed on page 25. Expenditures of $16,232,000, including $12,493,000 for dry holes, were expensed. Dry hole costs for 1973 were $12,719,000.

Expenditures for exploration and production totaling $107,111,000 were made up of $10,861,000 in inland United States, $70,037,000 in the Gulf of Mexico, $11,682,000 in Canada, $5,600,000 in the United Kingdom area of the North Sea, $4,079,000 in North and West Central Africa, $3,100,000 in the Persian Gulf and $1,752,000 in other areas. The Gulf of Mexico expenditures include $56,200,000 for the acquisition of an interest in 39 lease blocks purchased at 1974 Federal lease sales.

Refinery expenditures of $12,719,000 include additional tankage at both refineries, sulfur plant facilities and a distillate hydrotreater unit at Meraux, Louisiana, revamping of the crude preflash unit at Superior, Wisconsin and other miscellaneous additions and replacements at both.

Service station and other marketing and distribution replacements, remodeling and conversions to self-service and Spur Go Shops (convenience stores with gasoline) cost $5,518,000. Of this amount, $2,949,000 was spent in the United States, $1,204,000 in Canada and $1,365,000 in the United Kingdom.

Additions to drilling barges and related equipment exclusive of the Storm purchase totaled $10,650,000 primarily for completion of the Ocean Scout and progress payments on the Ocean Endeavour and Ocean Ranger under construction at year-end. Additions to diving equipment cost $1,955,000.

Capital expenditures for property and equipment involved in the Storm acquisition were $108,182,000 for drilling barges in operation and under construction, $12,964,000 for service boats and tugs and $1,759,000 for land, buildings and related property.

Farm, timber and sawmill capital expenditures were $3,725,000—$105,000 for farmlands, $2,187,000 for timberland, $640,000 for sawmills and $793,000 for farm and timber equipment.

CAPITAL EMPLOYED

On February 6, 1974, Murphy Oil Corporation called for redemption

STOCK PRICES AND DIVIDENDS

Price Range of Common Stock	1974	1973
First quarter High—Low	$50½—35	33¼—24
Second quarter High—Low	37½—26⅞	32½—23¾
Third quarter High—Low	27⅜—16¾	37⅛—27⅞
Fourth quarter High—Low	24½—14¾	48 —33¼
Quarterly Dividends Per Common Share		
First quarter	$.12	.075
Second quarter	.12	.08
Third quarter	.12	.08
Fourth quarter	.24	.08

The above information has been restated for the stock split effected in May, 1974. Prices are as quoted on the New York Stock Exchange.

all of the outstanding 5% Convertible Debentures Due 1989. These debentures were sold in Europe in 1969. Of the $25,000,000 principal amount of debentures originally issued, a total of $24,903,000 principal amount was converted into 497,566 shares of Common Stock. The remaining $97,000 was redeemed.

On May 1, 1974, the Common stockholders of the Company approved an amendment to its Certificate of Incorporation increasing the authorized number of shares of Common Stock from 8,000,000 to 18,000,000. The purpose of this amendment was to permit the Board of Directors to effect a two-for-one split of the Common Stock effective at the close of business May 8, 1974. An amount equal to $1.00 per share for each share of Common Stock issued as a stock dividend ($6,290,000) to effect the split was transferred from Retained Earnings to Capital Stock.

Working capital at year-end was $93,858,000, a decrease of $5,131,000 during the year. Long-term notes payable, excluding current maturities of $29,982,000, were $263,732,000, an increase of $118,692,000. Exclusive of new debt associated with the Storm purchase of $130,327,000, long-term notes payable decreased $11,635,000.

Stockholders' equity increased $71,727,000 during the year to a total of $311,923,000 at year-end. Of the increase, $21,046,000 was the result of the conversion of the debentures noted above. During the year cash dividends of $114,000 were paid on the Preferred Stock and $7,484,000 on the Common Stock. Treasury stock increased $1,385,000 the net cost of 52,752 additional shares on hand at year-end.

The Meraux sulfur unit, in the center background, under construction at year-end, will enable the refinery to process a higher proportion of sour crude oil.

PROPERTY, PLANT AND EQUIPMENT
(Thousands of dollars)

	1974 Additions	Investment December 31, 1974	Investment December 31, 1973
Production and exploration	$ 90,879	345,665	259,341
Refining	12,719	80,884	68,378
Marketing	5,518	69,098	67,596
Drilling barges and equipment	133,555	304,357	184,208
Transportation	261	9,391	9,131
Farms, timber and sawmills	3,725	22,949	19,453
Other	17,280	25,776	8,526
	$263,937	858,120	616,633
Accumulated depreciation, depletion and amortization		262,344	212,526
		$595,776	404,107

MURPHY
OIL CORPORATION
and Consolidated Subsidiaries

Statement of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Murphy Oil Corporation and its significant majority-owned subsidiaries except for a foreign insurance company. Investments in the foreign insurance company and less than majority-owned companies in which Murphy has a voting stock interest of 20 percent or more, if significant, are accounted for by the equity method and are stated at equity in underlying net assets. Other investments are stated at cost.

The Company provides a reserve for losses from currency realignments and political risks inherent in foreign operations by charges against earnings.

Foreign currencies are translated into U. S. dollars as follows: property, plant and equipment, deferred charges and credits, investments and long-term debt at historical rates; other assets and liabilities at year-end rates; revenues and expenses at average rates during each year except for depreciation, depletion and amortization which are based on the historical cost of the related assets. Gains and losses resulting from currency realignments are charged or credited to the reserve for foreign operations except that a subsidiary capitalizes those amounts related to debt incurred for drilling barge construction and includes all other amounts in earnings. All translation gains and losses due to normal fluctuations in exchange rates are reflected in earnings. On unperformed forward exchange contracts, losses are provided for currently but gains are recognized only when realized.

INVENTORIES

Inventories of crude oil and petroleum products generally are valued at cost applied on a last-in, first-out (LIFO) basis which in the aggregate is lower than market value. Crude oil and petroleum products owned by foreign subsidiaries in Canada and the United Kingdom are valued at the lower of first-in, first-out (FIFO) cost or market. Raw materials are stated at average cost. Materials and supplies are valued at the lower of average cost or estimated value. See Notes to Consolidated Financial Statements for policy prior to 1974.

EXPLORATION AND DEVELOPMENT

Costs of acquiring undeveloped leases including geological and geophysical expenditures which result in the acquisition or retention of undeveloped leaseholds are capitalized. If production is obtained, appropriate leasehold costs are transferred to producing oil and gas properties. The cost of that portion of undeveloped leaseholds estimated to be nonproductive is amortized over the estimated holding period of the leases. Intangible development costs on productive wells are capitalized for financial reporting purposes, but for Federal income tax purposes all such costs are taken as deductions. Dry hole costs, lease rentals and other exploration expenses are charged against earnings as incurred.

DEPRECIATION AND DEPLETION

Depreciation and depletion of producing oil and gas properties are computed on the unit-of-production method based on estimated recoverable oil and gas reserves for each separate property except for properties located in the Gulf of Mexico. Gulf properties are combined and treated as one property by each company owning such leaseholds. Depletion of timber is based on board feet cut as related

Modernized Murco station near English motorway

to total standing board feet. Depreciation of refining and marketing facilities, drilling barges and related equipment, and other properties is calculated on the composite straight-line method.

ASSET RETIREMENTS

Disposals or retirements which are extraordinary in nature and amount or which include an entire depreciable or depletable property unit are accounted for by charging or crediting earnings with the residual cost, adjusted for salvage or other proceeds. Upon disposal or retirement of less than an entire depreciable or depletable unit, the cost of the properties less salvage or other proceeds is charged or credited to accumulated depreciation and depletion.

MAINTENANCE AND REPAIRS

Disposals or retirements which are turnarounds and major repairs to drilling barges by charges against current earnings. Other maintenance and repair costs are charged against earnings as incurred. Renewals and betterments are capitalized.

INTEREST AND DEBT EXPENSE

Interest on funds borrowed specifically for major construction projects is capitalized during construction. Debt expense is deferred and amortized on a straight-line basis over the term of the related debt.

INCOME TAXES

Provision is made in the accounts to reflect the interperiod allocation of income taxes resulting from certain revenues and expenses which affect financial and taxable earnings in different years. Principal allocation items are accelerated depreciation, amortization of nonproducing leases, intangible development costs in

Log entering debarker at a Deltic sawmill

Canada, provision for major drilling barge repairs and refinery turnarounds and equity in the undistributed but not permanently invested earnings of foreign subsidiaries. The flow-through method is used to account for investment tax credit.

EMPLOYEE RETIREMENT PLANS

The Company and its subsidiaries have trusteed retirement plans covering substantially all of their employees. Prior service cost is amortized over varying periods up to 20 years and is funded over 30 years by the Company and as it accrues by subsidiaries. Gains or losses resulting from changes in actuarial assumptions are spread over 10 years.

EXCISE TAXES

Taxes collected on the sale of products and remitted to governmental agencies are not included in revenues or costs and deductions.

EARNINGS PER SHARE

Earnings per Common and Common equivalent share are computed by dividing the weighted average number of Common and Common equivalent shares outstanding during each year into net earnings applicable to such shares. Common share equivalents include the Company's outstanding options. The number of equivalent shares is determined by the treasury stock method.

Fully diluted earnings per Common share are computed assuming that the Convertible Debentures issued by a subsidiary and outstanding during the year were converted into Common Stock. Adjustments are made for interest and income tax expense.

MURPHY OIL CORPORATION
and Consolidated Subsidiaries

Consolidated Statements of Earnings

Years Ended December 31, 1974 and 1973

	1974	1973
REVENUES		
Sales	$753,131,000	428,244,000
Drilling and other operating revenues	109,271,000	70,879,000
Interest and other revenues	16,590,000	11,884,000
Total revenues	878,992,000	511,007,000
COSTS AND DEDUCTIONS		
Crude oil, products and related operating expenses	550,700,000	287,537,000
Drilling barge and other operating expenses	37,872,000	24,496,000
Exploration expenses	28,757,000	26,342,000
Selling and general expenses	27,233,000	23,600,000
Depreciation and depletion	38,600,000	31,533,000
Reduction in carrying value of foreign properties	7,584,000	—
Provision for foreign losses	5,310,000	4,833,000
Taxes other than income taxes	6,962,000	5,700,000
Interest expense	16,521,000	13,997,000
Federal and state income taxes	12,360,000	15,615,000
Foreign income taxes	67,479,000	19,497,000
Minority interests in earnings of subsidiaries	13,009,000	9,379,000
Total costs and deductions	812,387,000	462,529,000
EARNINGS BEFORE EXTRAORDINARY ITEM AND CUMULATIVE EFFECT OF ACCOUNTING CHANGE	66,605,000	48,478,000
Extraordinary item—utilization of foreign tax credit carryforward	—	5,060,000
Cumulative effect on prior years (to December 31, 1973) of a change in accounting for Canadian income taxes	(5,661,000)	—
NET EARNINGS	$ 60,944,000	53,538,000
Per Common and Common equivalent share:		
Earnings before extraordinary item and cumulative effect of accounting change	$ 5.36	4.15
Extraordinary item	—	.44
Cumulative effect of accounting change	(.46)	—
Net earnings	$ 4.90	4.59
Per Common share assuming full dilution:		
Earnings before extraordinary item and cumulative effect of accounting change	$ 5.29	3.89
Extraordinary item	—	.40
Cumulative effect of accounting change	(.45)	—
Net earnings	$ 4.84	4.29

See statement of significant accounting policies and notes to consolidated financial statements, pages 26 and 32.

MURPHY
OIL CORPORATION
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Consolidated Balance Sheets

December 31, 1974 and 1973

ASSETS	1974	1973
Current assets:		
Cash	$ 26,735,000	8,253,000
Certificates and other interest-earning deposits	66,162,000	83,538,000
Marketable securities, at cost plus accrued interest which approximates market	33,455,000	18,856,000
Accounts receivable, less allowance for doubtful accounts of $1,280,000 in 1974 and $1,086,000 in 1973	147,140,000	70,195,000
Inventories:		
Crude oil and raw materials	30,876,000	31,443,000
Finished products	49,265,000	35,118,000
Materials and supplies	16,994,000	7,471,000
Total current assets	370,627,000	254,874,000
Investments, at equity	45,980,000	23,352,000
Other investments and noncurrent receivables	19,303,000	11,551,000
Property, plant and equipment, at cost less accumulated depreciation, depletion and amortization	595,776,000	404,107,000
Deferred charges and other assets	9,913,000	9,975,000
	$1,041,599,000	703,859,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term notes payable	$ 29,982,000	22,467,000
Notes payable	13,806,000	3,210,000
Accounts payable and accrued liabilities	194,081,000	103,625,000
Income taxes	38,900,000	26,583,000
Total current liabilities	276,769,000	155,885,000
Long-term notes payable	263,732,000	145,040,000
Convertible debentures	—	21,691,000
Exploration advances	21,169,000	19,788,000
Deferred and noncurrent income taxes	41,758,000	14,239,000
Reserves for major repairs	4,586,000	3,888,000
Deferred credits and other liabilities	18,630,000	10,037,000
Minority interests in subsidiaries	103,032,000	93,095,000
Stockholders' equity	311,923,000	240,196,000
	$1,041,599,000	703,859,000

See statement of significant accounting policies and notes to consolidated financial statements, pages 26 and 32.

MURPHY
OIL CORPORATION
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Consolidated Statements of Stockholders' Equity

Years Ended December 31, 1974 and 1973

	1974	1973
CAPITAL STOCK		
Cumulative Preferred Stock, Series A, 6¼%, par $100, authorized and issued 15,629 shares (20,671 in 1973)	$ 1,563,000	2,067,000
Cumulative Preference Stock, par $100, authorized 400,000 shares, none issued	—	—
Common Stock, par $1.00, authorized 18,000,000 shares, issued 12,580,786 shares (5,858,552 in 1973)	12,581,000	5,859,000
Capital stock at end of year	14,144,000	7,926,000
CAPITAL IN EXCESS OF PAR VALUE		
Balance at beginning of year	113,699,000	110,494,000
Add (deduct):		
Excess of principal amount of a subsidiary's convertible debentures over par value of the Company's Common Stock issued on conversion less unamortized debt expense	20,614,000	3,019,000
Credit (charge) arising from exercise of stock options	(107,000)	152,000
Decrease in the Company's share of a subsidiary's capital in excess of par value arising from an increase in ownership in the subsidiary	(669,000)	—
Other, net	—	34,000
Capital in excess of par value at end of year	133,537,000	113,699,000
RETAINED EARNINGS		
Balance at beginning of year	118,574,000	68,841,000
Add net earnings for the year	60,944,000	53,538,000
Deduct:		
Cash dividends—Preferred Stock	114,000	145,000
Common Stock—$.60 a share ($.315 in 1973)	7,484,000	3,660,000
Par value of 6,290,393 Common shares issued to effect a two-for-one stock split	6,290,000	—
Retained earnings at end of year	165,630,000	118,574,000
Less treasury stock, 52,804 shares of Common Stock in 1974 and 52 shares in 1973, at cost	1,388,000	3,000
TOTAL STOCKHOLDERS' EQUITY	$311,923,000	240,196,000

See statement of significant accounting policies and notes to consolidated financial statements, pages 26 and 32.

Consolidated Statements of Changes in Financial Position

Years Ended December 31, 1974 and 1973

	1974	1973
SOURCES OF FUNDS		
Earnings before extraordinary item and cumulative effect of accounting change	$ 66,605,000	48,478,000
Charges to earnings not requiring working capital:		
Depreciation, depletion, amortization, etc.	56,735,000	41,294,000
Deferred and noncurrent income taxes	1,549,000	1,974,000
Provision for foreign losses	5,310,000	4,833,000
Minority interests in earnings of subsidiaries	13,009,000	9,379,000
Other	7,258,000	4,939,000
Working capital provided by operations before extraordinary item and cumulative effect of accounting change	150,466,000	110,897,000
Extraordinary item	—	5,060,000
Cumulative effect of accounting change not requiring working capital	—	—
Working capital provided by operations	150,466,000	115,957,000
Issuance of long-term notes payable	144,246,000	45,587,000
Exploration advances	3,286,000	16,349,000
Issuance of Company's Common Stock on conversion of Debentures	21,524,000	3,153,000
Deferred income and in 1973 reimbursement of barge construction costs	6,430,000	8,075,000
Cost of drilling barge transferred to joint operation	9,744,000	—
Sales of property	2,690,000	3,345,000
Other	1,498,000	861,000
Total sources of funds	339,884,000	193,327,000
USES OF FUNDS		
Additions to property, plant and equipment	141,032,000	103,140,000
Storm acquisition:		
Property and equipment	122,905,000	—
Investment in 50% owned companies	10,932,000	—
Debt and estimated income taxes	(28,227,000)	—
Long-term notes paid and currently payable	34,881,000	29,256,000
Debentures called for redemption by the Company	21,691,000	3,157,000
Dividends	7,598,000	3,805,000
Investments, noncurrent receivables and deferred charges	20,724,000	14,776,000
Other	13,479,000	7,628,000
Total uses of funds	345,015,000	161,762,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ (5,131,000)	31,565,000
Changes in components of working capital:		
Cash and short-term investments	$ 15,705,000	41,361,000
Accounts receivable	76,945,000	7,991,000
Inventories	23,103,000	20,386,000
Current maturities of long-term notes payable	(7,515,000)	(7,944,000)
Notes payable	(10,596,000)	(1,282,000)
Accounts payable and accrued liabilities	(90,456,000)	(14,919,000)
Income taxes	(12,317,000)	(14,028,000)
	$ (5,131,000)	31,565,000

See statement of significant accounting policies and notes to consolidated financial statements, pages 26 and 32.

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Notes to Consolidated Financial Statements

See page 25 for details of property, plant and equipment.

CAPITAL EMPLOYED AND NET EARNINGS—GEOGRAPHICALLY—The approximate geographical distribution of capital employed at December 31, 1974 and of net earnings for 1974 and 1973 was as follows:

	Capital Employed	Net Earnings 1974	Net Earnings 1973
North America	$414,742,000	10,842,000	21,418,000
Other Western Hemisphere	41,576,000	835,000	(2,318,000)
Eastern Hemisphere	243,538,000	49,267,000	34,438,000
	$699,856,000	60,944,000	53,538,000

The distribution of net earnings is based on prevailing area market prices. Corporate overhead, Federal income taxes and interest expense have been allocated.

FINANCING ARRANGEMENTS—The Company and its subsidiaries have unused lines of credit with banks for short-term borrowings amounting to approximately $24,000,000 at prime interest rates. There are no significant compensating balance requirements and the lines of credit can be withdrawn by the banks at any time. Average amounts of short-term debt outstanding were $8,121,000 in 1974 and $4,289,000 in 1973 with related weighted daily average interest rates of 11% and 10%, respectively. At December 31, 1974 and 1973, weighted average interest rates were 11% and 12½%, respectively. The maximum amount of short-term debt outstanding at any month-end was $24,666,000 in 1974 and $7,927,000 in 1973.

The Company has a Revolving Credit Agreement with banks which provides for revolving loans up to $80,000,000 in amounts and for periods of time at the Company's discretion until May 1, 1977. On May 1, 1977 any loan outstanding will become a 5-year term loan. Both revolving loans and term loans under this Agreement bear interest at rates which fluctuate with the agent bank's prime rate. A fee of ½% per annum is payable on commitments not borrowed and an additional fee which varies with the agent bank's prime rate is payable on unused commitments plus loans outstanding. At December 31, 1974, no funds had been borrowed under this Agreement.

A subsidiary has an agreement with banks to borrow up to $38,000,000 until December 31, 1975 at which time any loans outstanding under the agreement can be converted to 5-year term loans. Short-term loans outstanding at December 31, 1974 in anticipation of this agreement totaled $11,000,000. Another subsidiary has unused lines of credit with banks for long-term borrowing of approximately $24,000,000. Two subsidiaries have agreed with a bank to sell a production payment for $12,000,000 to finance the development of a property. All loans and the production payment under the subsidiaries' agreements bear interest which fluctuates with the prime rate and a commitment fee of approximately ½% per annum is payable on unused commitments.

Compensating balance requirements under commitments for long-term borrowings and loans presently outstanding are not significant.

LONG-TERM NOTES PAYABLE—Long-term notes payable consisted of the following:

	1974	1973
Murphy Oil Corporation		
6¼% due 1975 to 1983	$ 21,600,000	24,000,000
8¼% due 1975 to 1986	23,000,000	25,000,000
Other due 1975 to 1983	2,165,000	3,133,000
Total Murphy Oil Corporation	46,765,000	52,133,000
Subsidiaries		
Payable to banks:		
6% due 1975 to 1980	16,434,000	19,017,000
11½%* to 11¾%* due 1975 to 1978	7,994,000	—
11¼%* due 1975 to 1980	16,434,000	18,955,000
11½%* due 1976 to 1981	11,000,000	—
11.775%* due 1976 to 1981	100,000,000	—
Payable to foreign banks:		
8% due 1980	15,000,000	15,000,000
7¾% and 6¼% due 1976 and 1977	17,666,000†	17,666,000†
11 15/16%* due 1976 to 1981	10,000,000	—
Mortgage notes, 11½%* due 1975 to 1980	15,165,000†	18,709,000†
Mortgage notes, 3.26% due 1975 to 1978	14,299,000	—
Other due 1974	—	9,649,000
Mortgage notes, 7½% and 8¾% due 1975 to 1993	5,305,000	5,461,000
Mortgage note, 7.62% due 1975 to 1981	5,040,000	—
Other due 1975 to 1998	12,612,000	10,917,000
Total Subsidiaries	246,949,000	115,374,000
Less current maturities	29,982,000	22,467,000
Consolidated long-term notes payable	$263,732,000	145,040,000

*Interest rate fluctuates †Payable in foreign currency

At December 31, 1974, assets with a depreciated cost of approximately $149,000,000 were pledged to secure certain notes payable. Amounts becoming due for the four years after 1975 are: 1976, $46,100,000; 1977, $43,707,000; 1978, $40,729,000; and 1979, $36,743,000. Capitalized interest on monies borrowed specifically for major construction projects was insignificant.

EXPLORATION ADVANCES—At December 31, 1974, outstanding advances received by the Company and certain subsidiaries under exploration agreements with gas transmission companies were $21,437,000 including $268,0000 classified as a current liability. Of the total, $20,683,000 is interest-free and $854,000 is repayable only from oil and gas production. The companies must repay $20,583,000 over five-year periods as follows: 1975 to 1979, $1,074,000; 1978 to 1982, $16,224,000; and 1979 to 1983, $3,285,000. In the event production is not sufficient to repay such balance the companies are obligated to repay the deficiency in cash. Repayment schedules will be accelerated if production commences or certain acreage is relinquished prior to the above dates. Additional advances may be received under certain circumstances.

STOCK OPTIONS—The Company's 1969 Stock Option Plan which terminated in 1974 provided for the granting of both qualified and nonqualified options to key employees of the Company and its 80%-owned subsidiaries at a price not less than the fair market value on the date of grant. The options are exercisable as to 50% of total shares three years after date of grant and as to all shares after four years. Qualified and nonqualified options expire after five and 10 years, respectively.

Changes in options outstanding under the 1969 Plan (adjusted for the stock dividend to effect a stock split) were as follows:

	Average Price	Number of Shares
Outstanding January 1, 1973	$14.93	90,600
Exercised	13.38	(26,750)
Outstanding December 31, 1973	15.57	63,850
Granted	36.25	30,000
Exercised	13.67	(10,100)
Outstanding December 31, 1974	23.17	83,750
Exercisable December 31, 1974	15.87	53,750

During 1973, a subsidiary adopted a stock option plan which provides for the granting of options to purchase 100,000 shares of the subsidiary's Common Stock. Both qualified and nonqualified options are issuable to key employees of the subsidiary at a price not less than the fair market value on the date of grant. The options are exercisable as to 50% of total shares three years after date of grant and as to all shares after four years. Qualified and nonqualified options expire after five and 10 years, respectively. No options have been granted under the plan.

STOCKHOLDERS' EQUITY—Certain loan agreements of the Company and the provisions of the Certificate of Incorporation relating to the Cumulative Preferred Stock, Series A, contain, among other things, covenants relating to indebtedness and payment of cash dividends. At December 31, 1974, retained earnings of approximately $89,435,000 were free from the most restrictive of such covenants.

The Cumulative Preferred Stock, Series A, is redeemable at $100 a share at decreasing premiums plus unpaid dividends. The Company must make annual sinking fund payments sufficient to redeem 5,042 shares at par plus unpaid dividends.

In February 1974, the Company called for redemption all of the outstanding 5% Convertible Debentures Due 1989. As a result of the call, $21,594,000 principal amount of the Debentures was converted into 431,441 shares of Common Stock and the remaining $97,000 was redeemed.

On May 1, 1974, the shareholders approved an increase in the Company's authorized Common Stock to 18,000,000 shares and the Board of Directors declared a 100% stock dividend to effect a two-for-one stock split. Earnings and dividends per share, average shares outstanding, shares subject to options and the related option prices have been adjusted to reflect the stock distribution.

At December 31, 1974, 83,750 shares of the Company's authorized and unissued Common Stock were reserved for issuance under the 1969 Stock Option Plan.

Changes in shares of capital stock issued are summarized below:

	Preferred Stock	Common Stock	Treasury Stock
At January 1, 1973	25,713	5,794,700	9,010
Conversion of Debentures	—	63,102	—
Redeemed	(5,042)	—	—
Purchases	—	—	15,000
Exercise of stock options	—	750	(12,625)
Used in a property acquisition	—	—	(11,333)
At December 31, 1973	20,671	5,858,552	52
Conversion of Debentures	—	431,441	—
100% stock distribution	—	6,290,393	52
Redeemed	(5,042)	—	—
Purchases	—	—	62,000
Exercise of stock options	—	400	(9,300)
At December 31, 1974	15,629	12,580,786	52,804

EMPLOYEE RETIREMENT, THRIFT AND INCENTIVE BONUS PLANS—Retirement plan costs were $1,118,000 in 1974 and $1,100,000 in 1973, including amortization of prior service cost of $324,000 and $317,000, respectively. Unfunded prior service cost was approximately $3,815,000 at December 31, 1974 and $3,114,000 a year earlier. Amendments to certain plans in 1974 and 1973 which provided increased benefits did not significantly affect net earnings. The actuarial value of vested benefits under all plans was $1,948,000 in excess of retirement fund

Notes to Consolidated Financial Statements

assets at cost plus balance sheet accruals at December 31, 1973, the date of the most recent computation. At December 31, 1974, the market value of retirement fund assets was approximately 10% below cost. The U. S. retirement plans substantially comply with the requirements of the Employee Retirement Income Security Act of 1974.

Employees of the Company and certain subsidiaries may participate in thrift plans by contributing up to 5% of their base pay. The cost of these plans was $613,000 in 1974 and $545,000 in 1973.

At the annual meeting on May 1, 1974, the stockholders approved an incentive bonus plan for key employees of the Company effective for 1973. Two subsidiaries also have incentive bonus plans for key employees. Each plan provides for establishing a reserve not to exceed a specified percentage of the amount by which net earnings (as defined) exceed an expressed percentage of capital employed in the business (as defined). Amounts credited to the reserves were $1,696,000 in 1974 and $1,062,000 in 1973. Awards may be paid only in cash under one plan, in cash or Common Stock under one plan and in cash or treasury stock under the other plan.

FOREIGN EXCHANGE—Losses of $751,000 in 1974 and $795,000 in 1973 arising from normal fluctuations in foreign exchange rates were reflected in earnings. Transactions with respect to the reserve for losses from foreign operations which is included in deferred credits and other liabilities are summarized below:

	1974	1973
Balance at beginning of year	$3,846,000	930,000
Add—Provision for losses on foreign properties	2,561,000	2,790,000
Provision for foreign exchange losses	2,749,000	2,043,000
Deduct—Foreign exchange losses	—	1,917,000
Charges related to foreign oil properties	996,000	—
Balance at end of year	$8,160,000	3,846,000

The foreign exchange losses pertain to long-term notes payable. Translated at rates of exchange in effect on December 31, 1974, long-term notes payable would increase by $12,315,000 and noncurrent time deposits of a foreign currency would increase by $2,292,000. There were no unperformed forward exchange contracts at December 31, 1974.

INCOME TAXES—Income taxes for 1974 and 1973 after deducting investment tax credits of $2,205,000 and $4,232,000, respectively, include the following:

	Federal	Foreign	State	Total
	(Thousands of dollars)			
1974:				
Current	$11,254	66,391	645	78,290
Deferred	(830)	723	—	(107)
Noncurrent	1,291	365	—	1,656
	$11,715	67,479	645	79,839
1973:				
Current	$ 8,110	19,138	830	28,078
Deferred	295	359	—	654
Noncurrent	(102)	—	1,422	1,320
Provision in lieu of taxes	5,060	—	—	5,060
	$13,363	19,497	2,252	35,112

Timing differences and the tax effect of each were as follows:

	1974	1973
Unremitted earnings of foreign subsidiaries and other companies not permanently invested	$ 4,638,000	3,549,000
Financial amortization of nonproducing leases over tax deductions	(2,006,000)	(2,031,000)
Financial depreciation (over) under tax deductions	295,000	(264,000)
Tax deductions for Canadian exploration expenses over financial amortization	2,573,000	—
Write down of producing oil and gas properties located overseas	(2,470,000)	—
Geological and geophysical expenses not deducted for tax purposes	(453,000)	(188,000)
Other financial expenses (over) under tax deductions	101,000	(863,000)
Taxable revenues deferred for financial purposes	(3,076,000)	—
Other, net	291,000	451,000
	$ (107,000)	654,000

Noncurrent taxes relate to matters the settlement of which has not been resolved with the taxing authorities.

The effective tax rate was 50% in 1974 and 38% in 1973. A reconciliation to the Federal tax rate of 48% follows:

	1974	1973
Federal statutory rate	48%	48%
Foreign source income permanently invested abroad	(2)	(8)
Foreign source income subject to foreign taxes at greater than Federal rates	7	—
Investment tax credit	(1)	(5)
Excess of statutory depletion and intangible development costs over amounts amortized for financial purposes	(3)	(2)
Other, net	1	5
Effective tax rate	50%	38%

No Federal income taxes were provided on permanently invested earnings of a domestic subsidiary and foreign subsidiaries amounting to $5,221,000 in 1974 and $6,446,000 in 1973 exclusive of amounts which if remitted in the near future would result in little or no tax by operation of relevant statutes currently in effect. Cumulative amounts of such permanently invested earnings were $25,987,000 at December 31, 1974.

RELATIONS WITH CERTAIN PRODUCING COUNTRY GOVERNMENTS—Recently, the Libyan Government has nationalized at least 51% of the interests of companies owning most of the crude oil production in that country and the Venezuelan Government has stated publicly that it plans to nationalize 100% of the companies' interests in that country by legislation which could occur in 1975. During 1974 there were continuous renegotiations of the operating agreements between the oil companies operating in the Middle East and the governments of the producing countries. However, final settlement had not been reached with any Middle Eastern Government at December 31, 1974 with respect to participation or nationalization, and the eventual settlement of the companies' equity positions, rights, obligations and increased costs under their operating agreements cannot be determined with certainty at this time. The Company has petroleum production facilities and produces and purchases crude oil in Iran, Libya and Venezuela. In view of these circumstances, the Company determined that the carrying value of its producing oil and gas properties in these countries should not exceed net book value for local income tax purposes and that crude oil costs should be accrued at amounts considered to be reasonable based on the information currently available. Accordingly, in 1974 the properties were written down and the reserve for foreign losses was increased by charges to earnings aggregating $10,145,000, and substantial amounts of crude oil costs were accrued on the basis set forth above.

CHANGES IN ACCOUNTING PRINCIPLES—In the fourth quarter of 1974 the Company changed its valuation basis to cost applied on the last-in, first-out (LIFO) method for all crude oil and petroleum product inventories except for inventories owned by foreign subsidiaries in the United Kingdom and Canada. In previous years the petroleum product inventories were stated at the lower of cost or market on the first-in, first-out (FIFO) method and crude oil inventories were valued principally at market for produced crude and FIFO cost which was approximately market for purchased crude.

The new method will achieve a better matching of current costs and current revenues and conform to the predominant industry practice.

Inventories valued at cost under the LIFO method at December 31, 1974 totaled $44,272,000 which was $30,234,000 less than such inventories would have been valued using the FIFO method. The change reduced net earnings in 1974 by approximately $14,475,000, $1.17 a Common and Common equivalent share. Pro forma effects of retroactive application of LIFO are not determinable.

Crude oil exchanges of $7,876,000 classified as accounts receivable in 1973 have been reclassified as crude oil and raw materials.

In March 1974, the Canadian Provincial Securities Administrators issued a ruling which required that all financial statements subsequently filed with the Provincial Securities Commissions must comply with Bulletin 26 issued by the Canadian Institute of Chartered Accountants. The bulletin requires that deferred taxes be provided on certain exploration, development and lease acquisition costs. As a result of the Administrators' ruling, the Company's Canadian subsidiary adopted deferred tax accounting with respect to such costs on a retroactive basis. The cumulative effect of the accounting change, $5,661,000, $.46 a Common and Common equivalent share, was charged against earnings as of January 1, 1974. The change in the method of accounting reduced 1974 earnings before cumulative effect of accounting change by approximately $1,991,000, $.16 a Common and Common equivalent share. Pro forma per-share amounts assuming retroactive application of the new method and actual amounts were as follows:

	1974		1973	
	Pro Forma	Actual	Pro Forma	Actual
Per Common and Common equivalent share:				
Earnings before extraordinary item and cumulative effect of accounting change	$5.36	5.36	3.95	4.15
Net earnings	5.36	4.90	4.39	4.59
Per Common share assuming full dilution:				
Earnings before extraordinary item and cumulative effect of accounting change	5.29	5.29	3.70	3.89
Net earnings	5.29	4.84	4.11	4.29

RESTATEMENT OF INTERIM RESULTS—Net earnings for the fourth quarter of 1974 include the effect of adopting

Notes to Consolidated Financial Statements

the LIFO method of inventory pricing effective January 1, 1974 and an adjustment to Federal and state income tax expense. The cumulative effect of a change in accounting for Canadian income taxes was included in the second quarter. A restatement of net earnings for the first three quarters of 1974 to reflect these adjustments is as follows:

	Quarter Ended		
	March 31	June 30	September 30
	(Thousands of dollars)		
Net earnings as originally reported	$25,498	12,267	12,189
Adjustment for cumulative effect of accounting change	—	5,661	—
Effect of change to LIFO	(14,539)	(1,813)	1,529
Effect of adjustment to Federal and state income taxes	3,650	3,205	5,955
Earnings before cumulative effect of accounting change	14,609	19,320	19,673
Cumulative effect on prior years (to December 31, 1973) of a change in accounting for Canadian income taxes	(5,661)	—	—
Net earnings as restated	$ 8,948	19,320	19,673
Per Common and Common equivalent share:			
Net earnings as originally reported	$ 2.10	.96	.96
Adjustment for cumulative effect of accounting change	—	.46	—
Effect of change to LIFO	(1.20)	(.14)	.13
Effect of adjustment to Federal and state income taxes	.30	.27	.48
Earnings before cumulative effect of accounting change	1.20	1.55	1.57
Cumulative effect on prior years (to December 31, 1973) of a change in accounting for Canadian income taxes	(.46)	—	—
Net earnings as restated	$ .74	1.55	1.57

STORM ACQUISITION—In late 1974, through a public tender offer, Ocean Drilling & Exploration Company (ODECO), a 51%-owned subsidiary, purchased for $108,884,000 cash substantially all of the stock of Storm Drilling & Marine, Inc. (Storm), principally a contract drilling company. Storm had 11 offshore drilling barges in operation and three under construction. The total cost of the acquisition was $137,111,000, including $108,884,000 cash, $9,327,000 debt, and $18,900,000 estimated noncurrent income taxes relating primarily to depreciation recapture. The total cost, less working capital of $3,274,000, was allocated to the assets of Storm based on ODECO's appraised value of the assets and included no goodwill. The transaction was accounted for as a purchase; accordingly, the results of operation of the Storm assets were included in the consolidated statement of earnings commencing December 1, 1974. Had the acquisition been consummated effective January 1, 1973, the effect on revenues, net earnings and earnings per share for 1973 and 1974 would have been insignificant.

ODECO has under consideration the transfer of certain of the Storm drilling barges to joint contract drilling operations and the disposition of certain other assets not needed in the contract drilling business. ODECO intends to apply the proceeds realized from the completion of these events to debt retirement.

COMMITMENTS AND CONTINGENCIES—The Company and its subsidiaries lease service stations, office space and other facilities. The leases generally contain multiple renewal options and leases on service stations provide that the lessee shall pay ad valorem taxes and certain other charges. Total rental expense, excluding delay rentals on undeveloped leaseholds, was $4,516,000 in 1974 and $4,060,000 in 1973. These amounts have been reduced by sublease rental income of $3,414,000 in 1974 and $2,898,000 in 1973.

Minimum rental commitments under all noncancelable leases payable in future periods are as follows:

	Service Stations*	Office Space	Other Facilities	Total
	(Thousands of dollars)			
1975	$ 2,984	732	2,646	6,362
1976	2,766	730	2,127	5,623
1977	2,612	730	767	4,109
1978	2,504	708	669	3,881
1979	2,385	634	526	3,545
1980-84	10,768	2,231	1,221	14,220
1985-89	6,997	610	951	8,558
1990-94	2,751	104	832	3,687
Thereafter	4,579	—	3,830	8,409

* Before deduction of related rental income from cancelable subleases. The Company expects future income from continued renewals of such subleases to reduce substantially the minimum rental commitments.

Noncapitalized financing leases (as defined by the Securities and Exchange Commission) are not significant.

Commitments for capital expenditures were approximately $150,000,000 at December 31, 1974. Contingent liabilities under guaranty and pipeline throughput agreements were $6,046,000.

Accountants' Report

The Board of Directors and Stockholders
Murphy Oil Corporation:

We have examined the consolidated balance sheets of Murphy Oil Corporation and Consolidated Subsidiaries as of December 31, 1974 and 1973 and the related statements of earnings and stockholders' equity and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In view of the unsettled situation relative to foreign operations, as more fully set forth in notes to consolidated financial statements, in 1974 the Company accrued costs of crude oil considered to be reasonable based on information currently available.

In our opinion, subject to the effect, if any, on the consolidated financial statements of the final determination of the costs discussed in the preceding paragraph, the aforementioned consolidated financial statements present fairly the financial position of Murphy Oil Corporation and Consolidated Subsidiaries at December 31, 1974 and 1973 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes, with which we concur, in the method of determining cost for certain inventories and in the method of providing for Canadian income taxes, both as described in notes to consolidated financial statements.

PEAT MARWICK, MITCHELL & CO.

Shreveport, Louisiana
March 21, 1975

MURPHY OIL CORPORATION
and Consolidated Subsidiaries

Ten-Year Summary

(Shares and dollars in thousands, except per-share amounts)

FINANCIAL	1974	1973	1972	1971
Sales and other revenues:				
Crude oil and natural gas	$ 107,160	41,381	46,197	32,909
Refined products	634,318	378,052	270,719	238,795
Drilling revenue	95,277	67,550	50,783	42,854
Agricultural, timber and lumber	11,653	8,811	7,836	3,613
Other revenues	30,584	15,213	11,374	10,413
Total revenues	878,992	511,007	386,909	328,584
Earnings before extraordinary items and accounting change	66,605	48,478	14,306	11,100
Per Common and Common equivalent share	5.36	4.15	1.23	1.01
Net earnings	60,944	53,538	14,278	11,100
Per Common and Common equivalent share	4.90	4.59	1.23	1.01
Capital expenditures—Production and exploration	107,111	65,003	46,277	28,442
Refining	12,719	5,351	18,758	9,333
Marketing	5,518	4,036	7,842	6,451
Drilling barges and equipment	133,555	34,992	49,813	16,341
Farms, timber and sawmills	3,725	6,318	974	1,157
Other	17,541	2,285	4,538	4,582
Total capital expenditures	280,169	117,985	128,202	66,306
Working capital provided by operations	150,466	115,957	59,324	48,302
Property, plant and equipment (net)	595,776	404,107	352,015	269,283
Total assets	[illegible]	703,859	567,847	492,123
Working capital	[illegible]	98,989	67,424	83,400
Long-term debt	[illegible]	186,519	157,585	102,911
Stockholders' equity	[illegible]	240,196	187,524	178,539
Cash dividends—Preferred and Preference	[illegible]	145	1,062	1,100
Common	[illegible]	3,660	3,213	2,966
Shares of Common Stock outstanding at year-end	[illegible]	11,717	11,571	10,697
Common stockholders at year-end	4,009	4,548	4,833	5,322
Employees at year-end	[illegible]	2,989	2,992	3,250
Salaries, wages and benefits	$ [illegible]	36,924	35,874	33,017
PRODUCTION AND EXPLORATION (net)				
Crude oil and gas liquids production—barrels a day	[illegible]	52,085	49,475	44,989
Natural gas produced—MCF a day	[illegible]	70,938	66,159	65,105
Wells completed—Oil wells	[illegible]	39	31	24
Gas wells	10	7	5	—
Dry holes	30	32	24	24
Oil and gas wells owned	[illegible]	993	800	771
Undeveloped acreage (thousands)	14,476	16,167	9,292	8,628
REFINING				
Refinery inputs—barrels a day—Company refineries	91,962	93,561	72,281	64,043
Other refineries	52,984	55,425	53,119	50,283
Refinery capacity—barrels a day	[illegible]	130,000	105,000	68,000
MARKETING				
Products sold—barrels a day—Gasoline	70,414	76,144	74,639	70,232
Distillates	44,135	48,323	44,843	34,067
Residuals	[illegible]	25,413	23,346	20,962
Asphalt	2,904	4,393	3,770	3,469
Total products sold	[illegible]	154,273	146,598	128,730
Branded retail outlets	1,784	1,915	2,180	2,298
CONTRACT DRILLING				
Number of drilling barges at year-end—Semisubmersibles	14	11	8	7
Jackups	11	5	3	3
Other	11	8	8	8
Drilling barge days—Available	9,355	7,607	6,693	6,246
Drilled	[illegible]	6,927	6,145	5,734
FARMS, TIMBER AND LUMBER				
Acres owned (thousands)—Farmland	23	22	21	20
Timberland	195	189	186	181
Lumber production capacity at year-end—MBF	89,000	89,000	36,000	36,000

1970	1969	1968	1967	1966	1965
28,881	32,562	23,172	27,073	25,394	24,291
203,987	182,703	159,309	144,224	133,120	117,708
35,653	28,541	27,418	24,161	19,557	15,956
1,943	2,027	1,518	1,619	1,330	1,203
7,100	6,163	3,134	2,110	2,831	1,825
277,564	251,996	214,551	199,187	182,232	160,983
9,337	6,228	7,020	8,786	8,102	6,204
0.90	0.56	0.64	0.94	0.91	0.71
9,408	6,631	7,918	8,330	8,102	6,204
0.91	0.60	0.74	0.88	0.91	0.71
36,909	16,001	19,428	18,655	11,554	18,495
3,435	3,617	1,673	1,818	2,524	533
8,217	7,825	6,223	5,888	4,280	3,226
25,683	12,271	3,209	6,803	13,023	10,930
1,785	438	382	603	236	240
4,535	1,169	505	236	45	—
80,564	41,321	31,420	34,003	31,662	33,424
37,595	30,011	30,259	28,238	26,789	22,921
238,729	194,110	178,067	168,911	155,533	141,066
399,220	343,914	283,709	267,791	229,035	203,597
53,849	69,769	39,727	42,409	34,180	28,566
123,605	103,998	64,979	64,856	60,750	54,254
142,680	137,549	135,032	130,826	109,032	103,551
1,124	1,134	1,432	1,198	998	686
2,722	2,730	2,466	1,974	1,938	1,936
9,073	9,093	9,097	7,979	7,752	7,752
5,348	5,203	5,208	4,980	5,228	4,973
3,292	3,635	3,662	3,873	3,634	3,879
29,396	27,020	24,504	23,881	21,347	18,650
43,197	37,448	22,973	20,241	19,581	18,407
61,710	60,334	55,445	51,679	49,556	51,581
12	5	15	26	29	37
3	4	3	3	2	3
17	25	20	18	35	32
580	588	597	619	602	592
7,476	3,713	2,657	2,436	2,339	2,965
59,573	56,590	51,790	48,142	45,411	41,169
37,897	33,805	26,473	12,858	10,630	7,672
68,000	60,000	55,000	50,000	47,000	44,000
63,068	55,799	46,279	43,137	38,808	33,052
31,466	29,637	25,497	20,608	18,825	17,471
19,093	15,818	13,470	11,781	10,701	10,205
2,659	3,180	2,790	2,597	2,019	1,123
116,286	104,434	88,036	78,123	70,353	61,851
2,176	2,274	2,031	1,828	1,444	1,333
6	6	6	7	6	3
2	1	—	—	—	—
8	6	6	6	6	6
5,357	4,479	4,392	4,041	3,603	3,121
4,897	4,232	4,007	3,819	3,383	3,055
18	17	13	11	11	11
183	181	185	187	184	184
—	—	—	—	—	—

MURPHY OIL CORPORATION
and Consolidated Subsidiaries

BOARD OF DIRECTORS

*C. H. Murphy Jr. (1950)
Chairman of the Board

*R. J. Sweeney Jr. (1972)
President

*Charles J. Hoke (1950)
Vice President

*†William C. Nolan (1950)
El Dorado, Arkansas
Partner, Munoco Company
Oil and Gas Products

*†J. A. O'Connor Jr. (1955)
El Dorado, Arkansas
Partner, Crumpler, O'Connor
& Wynne, Attorneys

Dr. John W. Deming (1950)
Alexandria, Louisiana
Physician

*Member of Executive Committee
†Member of Audit Committee
Year of Election to Board in parentheses

H. Rodes Hart (1975)
Nashville, Tennessee
President, Franklin Builders
Supply Co., Wholesale
Building Materials

†Vester T. Hughes (1973)
Dallas, Texas
Partner, Jackson, Walker, Winstead,
Cantwell & Miller, Attorneys

James R. Jones (1968)
Vice President

The Rt. Rev. Christoph Keller Jr. (1950)
Little Rock, Arkansas
Bishop, Episcopal Diocese of Arkansas

Allen Morgan (1973)
Memphis, Tennessee
Consultant, First Tennessee National
Corporation, Commercial Bankers

†Ralph Owen (1960)
Nashville, Tennessee
Retired, Formerly Chairman of American
Express Company

OFFICERS

C. H. Murphy Jr.
Chairman of the Board

R. J. Sweeney Jr.
President

Charles J. Hoke
Vice President

James R. Jones
Vice President

Charles E. Cowger
Vice President

John L. Solomon
Vice President

Paul C. Bilger
Vice President

Ben S. Smith Jr.
Vice President

O. Paul Doyle
Vice President

Jerry W. Watkins
Secretary and General Counsel

George E. Breazeal
Controller

B. David Richardson
Treasurer

PRINCIPAL SUBSIDIARY COMPANIES

Murphy Oil Company Ltd. (77%)

Calgary, Alberta

B. Harold Monzingo, President

Exploration for and production of crude oil and nautral gas and production and marketing of petroleum products in Canada

Murphy Eastern Oil Company (100%)

London, England

Jack W. McNutt, President

Coordination of exploration for and production of oil and natural gas and refining and marketing of crude oil and petroleum products in Europe, Africa and the Middle East

Ocean Drilling & Exploration Company (51%)

New Orleans, Louisiana

Alden J. Laborde, Chairman

Drilling contracting and exploration for and production of oil and natural gas on continental shelves

Deltic Farm & Timber Co., Inc. (100%)

El Dorado, Arkansas

Jesse G. Ralston, President

Farm and timber properties and operations in Arkansas and Louisiana and lumber production in Arkansas

TRANSFER AGENTS AND REGISTRARS

Common Stock

Transfer Agents

Chemical Bank, New York
Mercantile Trust Company, N. A., St. Louis

Registrars

Chemical Bank, New York
St. Louis Union Trust Company, St. Louis

Cumulative Preferred Stock, Series A

Transfer Agent and Registrar

Murphy Oil Corporation, El Dorado, Arkansas

AUDITORS

Peat, Marwick, Mitchell & Co.
Shreveport, Louisiana

FORM 10-K

A copy of the Company's annual Form 10-K Report to the Securities and Exchange Commission is available on request from Murphy Oil Corporation, Controller's Dept., 200 Jefferson Avenue, El Dorado, Arkansas 71730

ANNUAL MEETING

The annual meeting of the stockholders of the Company will be held May 14, 1975 at the South Arkansas Arts Center, El Dorado, Arkansas

Printed in United States of America.

MURPHY OIL CORPORATION
200 North Jefferson
El Dorado, Arkansas 71730

Fill

Six Months Report

June 30, 1975

SPUR®

MURPHY
OIL CORPORATION

TO THE SHAREHOLDERS:

Murphy Oil Corporation's consolidated earnings for the second quarter of 1975 were $9,276,000, 74 cents a common share. This was a 52 percent decrease from earnings of $19,320,000 in the second quarter of 1974 when unusual and short-lived profits in Europe were near their peak.

Earnings for the six months ended June 30, 1975 were $17,907,000, $1.43 a share, compared to restated 1974 earnings for the same period of $28,268,000, $2.24 a share, after a special charge of $5,661,000.

Second quarter and first half 1974 earnings have been restated to reflect the effect of a change to last-in, first-out (LIFO) method of accounting for certain inventories and to give effect to an adjustment in the 1974 provision for federal income taxes. Both the inventory accounting change and the tax adjustment were made in the fourth quarter of 1974, retroactive to January 1, 1974. The 1974 special charge was made to account for the cumulative effect to December 31, 1973 of an accounting change made by the Company's Canadian subsidiary to record deferred income taxes relative to intangible drilling costs.

Federal and state income taxes were estimated at $5,922,000 for the quarter, $2,000,000 more than the provision in the second quarter of 1974, a consequence of elimination of the statutory depletion allowance and strictures of the Tax Reduction Act of 1975, so-called, on the credit for taxes paid other countries on our foreign earnings.

World demand for refined products is slack because of the recession and as consumers turn to substitutes or simply reduce usage in reaction to the OPEC cartel's abrupt increase in the price of crude oil. This is reflected in our sales which were 124,000 barrels a day compared to 141,000 barrels a day in 1974's second quarter. A strong offsetting factor is our worldwide contract drilling business conducted through our 52-percent-owned subsidiary, Ocean Drilling & Exploration Company.

Second quarter results of $9,276,000, 74 cents a share, were essentially flat with first quarter earnings of $8,631,000, 69 cents a share, a noteworthy hint that the sustainable level under prevailing conditions may be near the $2.80 annual rate. As we suggested at the annual meeting, this should be considered quite satisfactory.

A flurry of press reports on both sides of the Atlantic has prompted many stockholders to call in about reserves of the Ninian field in the North Sea. In his address at the annual meeting, Murphy's president said: "DeGolyer & MacNaughton have estimated Ninian reserves to be 1.2 billion barrels . . . Their estimates assume a recovery factor of 35 percent which should prove to be conservative." A final delineation well has been drilled since the annual meeting. Our assessment is that this well increases slightly the estimate of oil in place and that it perhaps shifts the entire reservoir a bit northward onto our block, but all of this is within the margin of error. Accordingly, we stand with what we said at the annual meeting.

A well drilled on the line of Mobile South Addition Block N661 E62, in which Murphy, ODECO, and Ocean Oil & Gas together own 7.60 percent, has encountered oil in three thick sand sections aggregating an apparent 138 feet of net pay. Block N661 E62 was bid in at the March 28, 1974 sale by a group led by Amoco for $81 million. We have considered it our best oil prospect in the recent

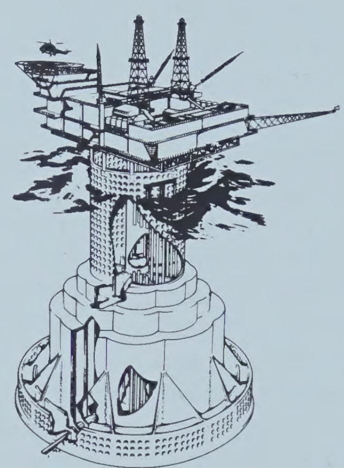
round of offshore lease sales and are encouraged by results of the first well. Further drilling is being done to determine commercial significance of the find.

Michigan-Wisconsin Gas Company, in return for a call on gas to be produced, has agreed to lend ODECO, Ocean and Murphy, interest free, the amount of money necessary for exploration and development of blocks bought in central Gulf of Mexico lease sales from March 28, 1974, to May 28, 1975. Estimated expenditure of $30.3 million through 1976 will be drawn down by August 7, 1975. Additional funds principally attributable to 1977, 1978 and 1979 operations will be drawn down as certain conditions are met.

On June 30 Murphy exercised an option to acquire 800,000 shares of the common stock of Basic Resources International S.A., bringing our total ownership in Basic to 1,020,000 shares or approximately 15 percent. We have warrants to purchase another 1,000,000 shares by June 30, 1976. Basic's assets are a one-half interest in petroleum concessions covering 933,000 acres, and wholly-owned hard mineral concessions in Guatemala. Oil has been seen on both structures so far tested, and we consider the prospects for commercial production to be encouraging.

C. H. Murphy, Jr.
Chairman of the Board

July 29, 1975
El Dorado, Arkansas



Artist's sketch of development drilling/production platform for Ninian field.

OPERATING SUMMARY

	Quarter Ended June 30		Six Months Ended June 30	
	1975	1974	1975	1974
Net crude oil and natural gas liquids produced—barrels a day	48,639	54,105	48,864	53,820
Net natural gas produced—thousands of cubic feet a day	89,829	96,380	88,376	94,901
Refinery inputs—barrels a day:				
Company refineries—for Murphy	90,762	87,599	92,391	86,480
for others	15,789	16,611	16,466	13,665
Other refineries	20,701	55,754	27,815	61,629
Finished petroleum products sold—barrels a day	123,958	140,759	131,781	141,390

CONSOLIDATED STATEMENT OF EARNINGS

(Thousands of dollars, except per-share amounts)

	Quarter Ended June 30		Six Months Ended June 30	
	1975	1974*	1975	1974*
SALES AND OPERATING REVENUES	$231,476	211,445	452,984	412,369
COSTS AND DEDUCTIONS				
Crude oil, products and operating expenses	151,695	143,036	311,216	274,124
Exploration expenses	8,292	6,620	19,629	12,638
Selling and general expenses	8,632	6,791	16,938	12,840
Depreciation and depletion	11,913	9,822	23,715	18,836
Provision for foreign losses	1,033	656	2,081	1,385
Reduction in carrying value of foreign properties	—	—	—	7,572
Taxes other than income taxes	2,008	1,657	4,155	3,421
Interest expense	5,823	3,781	12,340	7,511
Federal and state income taxes	5,922	3,913	10,765	9,590
Foreign income taxes	22,976	12,430	26,918	24,008
Minority interests in earnings of subsidiaries	3,906	3,419	7,320	6,515
Total costs and deductions	222,200	192,125	435,077	378,440
EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	9,276	19,320	17,907	33,929
Cumulative effect on prior years (to December 31, 1973) of a change in accounting for Canadian income taxes	—	—	—	(5,661)
NET EARNINGS	$ 9,276	19,320	17,907	28,268
Per Common and Common equivalent share:				
Earnings before cumulative effect of accounting change	$ 0.74	1.55	1.43	2.75
Net earnings	0.74	1.55	1.43	2.29
Per Common share assuming full dilution:				
Earnings before cumulative effect of accounting change	0.74	1.53	1.43	2.69
Net earnings	0.74	1.53	1.43	2.24

Average Common and Common equivalent shares outstanding were 12,530,268 in 1975 and 12,317,555 in 1974.

*Restated to reflect adoption of the LIFO method of inventory pricing and an adjustment to Federal and state income tax expense.

The above interim statement is based in some respects on estimates subject to year-end adjustments. Such statement has not been examined by independent accountants.